ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.
Form DEF 14A
September 24, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement. ¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**
þ Definitive Proxy Statement.
¨ Definitive Additional Materials.
¨ Soliciting Material Pursuant to §240.14a-12.

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

¨ Fee computed below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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222 Merchandise Mart Plaza, Suite 2024

Chicago, IL 60654

Telephone: (312) 506-1230

Facsimile: (312) 506-1201

September 24, 2010

Fellow Stockholder:

You are cordially invited to attend the Allscripts Healthcare Solutions, Inc. 2010 Annual Meeting of Stockholders on Thursday, November 4, 2010 at 9:00 a.m., local time. The meeting will be held at Allscripts principal offices located at 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654.

Today, we mailed to most of our stockholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our 2010 proxy statement and annual report over the Internet and vote online. All other stockholders will continue to receive a copy of the proxy statement and annual report by mail unless they elect to receive the annual meeting materials over the Internet. The Notice and proxy statement contain instructions on how you can (i) receive a paper copy of the proxy statement and annual report, if you only received a Notice by mail, or (ii) elect to receive your proxy statement and annual report over the Internet, if you received them by mail this year.

The accompanying Notice of Internet Availability of Proxy Materials and the proxy statement describe the business to be transacted at the annual meeting and provide other information concerning Allscripts of which you should be aware when you vote your shares. All stockholders are welcome to attend the annual meeting.

Your vote is important. Whether or not you plan to attend the annual meeting, I urge you to authorize your proxy as soon as possible. You may vote by proxy on the Internet or by telephone, or, if you received the proxy materials by mail, you may also vote by mail. Your vote will ensure your representation at the annual meeting regardless of whether you attend in person. In any event, please vote as soon as possible.

On behalf of Allscripts Board of Directors and our management team, I would like to express our appreciation for your interest in Allscripts.

Sincerely,

Glen E. Tullman

Chief Executive Officer

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD NOVEMBER 4, 2010

To the Stockholders of Allscripts Healthcare Solutions, Inc.:

This proxy statement is being furnished to holders of shares of Allscripts Healthcare Solutions, Inc. (Allscripts) common stock in connection with the solicitation of proxies by the board of directors of Allscripts for use at the annual meeting of stockholders to be held on Thursday, November 4, 2010 at 9:00 a.m., local time. The meeting will be held at Allscripts principal offices located at 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654. The annual meeting is being held for the following purposes:

1. to elect the ten director nominees named in the proxy statement to serve until the 2011 Annual Meeting of Stockholders;

2. to approve an amendment to the Allscripts-Misys Healthcare Solutions, Inc. Employee Stock Purchase Plan (the ESPP) to, among other items, increase the number of shares available for grant thereunder by 250,000;

3. to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the seven month period ending December 31, 2010; and

4. to transact any and all other business that may properly come before the annual meeting or any adjourned session of the annual meeting.

The Allscripts board of directors recommends that Allscripts stockholders vote FOR all of the director nominees and FOR proposals 2 and 3 listed above.

Only stockholders who owned shares of Allscripts common stock at the close of business on September 14, 2010, the record date for the annual meeting, are entitled to notice of, and to vote at, the annual meeting and any adjournment or postponement of it.

Your vote is important. We urge you to vote your shares promptly, even if you plan to attend the annual meeting. You may vote over the Internet, by telephone or, if you received the proxy materials by mail, by returning the enclosed proxy card. Specific instructions on how to vote can be found on the proxy card.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on November 4, 2010:

This proxy statement and the fiscal 2010 annual report are available at: http://www.proxyvote.com

By Order of the Board of Directors,

Lee Shapiro

President and Secretary

September 24, 2010

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ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

Proxy Statement

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Annual Report on Form 10-K

We have made available or enclosed with this proxy statement a copy of our Annual Report to Stockholders, which includes our Annual Report on Form 10-K for the fiscal year ended May 31, 2010, without exhibits. You may access the exhibits described in the Form 10-K through our website at *www.allscripts.com* or obtain a copy of the exhibits for a fee upon request. To request a copy of such exhibits, please contact Lee Shapiro, Secretary, Allscripts Healthcare Solutions, Inc., 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654.

This proxy statement and form of proxy are first being sent to stockholders on or about September 24, 2010.

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PROXY STATEMENT

GENERAL

This proxy statement contains information related to the annual meeting of stockholders of Allscripts Healthcare Solutions, Inc. (Allscripts) to be held on November 4, 2010, beginning at 9:00 a.m., local time. The meeting will be held at Allscripts principal offices located at 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654. The proxy statement was prepared under the direction of Allscripts board of directors to solicit your proxy for use at the annual meeting. It will be made available and mailed to stockholders on or about September 24, 2010.

On October 10, 2008, the transactions (the 2008 Misys Transactions) contemplated by the Agreement and Plan of Merger by and among Allscripts, Misys plc (Misys), Misys Healthcare Systems, LLC (Misys Healthcare) and Patriot Merger Company, LLC, were consummated. In connection with the consummation of the 2008 Misys Transactions, Allscripts Healthcare Solutions, Inc. was renamed Allscripts-Misys Healthcare Solutions, Inc. and we changed our fiscal year end from December 31st to May 31st. For accounting purposes, the 2008 Misys Transactions are treated as a reverse acquisition, with Misys Healthcare deemed to be the acquirer. As a result of the reverse acquisition accounting, Misys Healthcare s financial statements became our historical financial statements. (Please refer to our Form 10-K for the fiscal year ended May 31, 2009 for more information). However, historical compensation related disclosure is derived from the historical financial statements of legacy Allscripts Healthcare Solutions, Inc. for periods prior to the consummation of the 2008 Misys Transactions.

On June 9, 2010, we announced that we had entered into a Framework Agreement with Misys, which was subsequently amended on July 26, 2010 (as amended, the Framework Agreement). Pursuant to the Framework Agreement, Allscripts and Misys agreed to reduce Misys existing indirect ownership interest in Allscripts. As of June 8, 2010, Misys held indirectly 79.8 million shares of our common stock, representing approximately 54.5% of the aggregate voting power of our capital stock. As of August 27, 2010, Misys held indirectly approximately 19.0 million shares of our common stock, representing approximately 10.2% of the aggregate voting power of our capital stock.

On August 24, 2010, we consummated the previously announced merger with Eclipsys Corporation (Eclipsys), a leading enterprise provider of solutions and services for hospitals and clinicians, and Arsenal Merger Corp., a wholly owned subsidiary of Allscripts (Merger Sub). Pursuant to the terms of the merger agreement, Merger Sub was merged with and into Eclipsys (the Merger), with Eclipsys surviving the Merger and becoming a wholly owned subsidiary of Allscripts. Following the Merger, we changed our name from Allscripts-Misys Healthcare Solutions, Inc. to Allscripts Healthcare Solutions, Inc. and changed our fiscal year end from May 31st to December 31st.

QUESTIONS AND ANSWERS ABOUT THE 2010 ANNUAL MEETING

When and where is the annual meeting?

The 2010 Annual Meeting of Stockholders will be held on November 4, 2010, at 9:00 a.m., local time, at Allscripts principal offices located at 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654.

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What am I voting on?

We are soliciting your vote on the following:

1. to elect the ten director nominees named in the proxy statement to serve until the 2011 Annual Meeting of Stockholders;

2. to approve an amendment to the Allscripts-Misys Healthcare Solutions, Inc. Employee Stock Purchase Plan, as amended (the ESPP), to, among other items, increase the number of shares available for grant thereunder by 250,000;

3. to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the seven month period ending December 31, 2010; and

4. to transact any and all other business that may properly come before the annual meeting or any adjourned session of the annual meeting.

How does the Allscripts board of directors recommend that stockholders vote?

Allscripts board of directors has recommended that Allscripts stockholders vote **FOR** the election of each director nominee, **FOR** the approval of the amendment to our ESPP to, among other items, increase the number of shares available for grant thereunder by 250,000, **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the seven month period ending December 31, 2010 and vote **FOR** or **AGAINST** any other properly raised matters, at the discretion of Messrs. Tullman and Shapiro.

Who may vote?

Allscripts stockholders at the close of business on September 14, 2010, the record date for the 2010 annual meeting, are entitled to vote. On that date, there were 186,376,109 shares of Allscripts common stock outstanding.

How many votes do I have?

Each share that you own of Allscripts common stock entitles you to one vote.

How do I vote?

Your shares can be voted at the annual meeting only if you are present in person or represented by proxy. Even if you plan to attend the meeting, we urge you to authorize your proxy in advance. We encourage you to authorize your proxy electronically by going to the http://www.proxyvote.com website or by calling the toll-free number (for residents of the United States and Canada) listed on your proxy card. Please have your proxy card in hand when going online or calling. If you authorize your proxy electronically, you do not need to return your proxy card. If you received proxy materials by mail and choose to authorize your proxy by mail, simply mark your proxy card, and then date, sign and return it in the postage-paid envelope provided.

If you hold your shares beneficially in street name, *i.e.*, through a nominee (such as a bank or broker), you may be able to authorize your proxy by telephone or the Internet as well as by mail. You should follow the instructions you receive from your broker or other nominee to vote these shares.

How does discretionary voting authority apply?

If you sign, date and return your proxy card, your vote will be cast as you direct. If you do not indicate how you want to vote, you give authority to Glen E. Tullman, Chief Executive Officer, and Lee Shapiro, President, to vote for the items discussed in these proxy materials and any other matter that is properly raised at the annual meeting. In such a case, your vote will be cast **FOR** the election of each director nominee, **FOR** the approval of the amendment to our ESPP to, among other items, increase the number of shares available for grant thereunder by 250,000, **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the seven month period ending December 31, 2010 and vote **FOR** or **AGAINST** any other properly raised matters, at the discretion of Messrs. Tullman and Shapiro.

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May I revoke my proxy?

Yes. You may revoke your proxy at any time before it is exercised in one of four ways:

1. by sending a written notice to the corporate secretary of Allscripts that is received prior to the annual meeting stating that the Allscripts stockholder revokes his or her proxy;

2. by properly completing a new proxy card bearing a later date and properly submitting it so that it is received prior to the annual meeting;

3. by logging onto the Internet website specified on the proxy card in the same manner a stockholder would to submit his or her proxy electronically or by calling the toll-free number specified on the proxy card prior to the annual meeting, in each case if the Allscripts stockholder is eligible to do so and following the instructions on the proxy card; or

4. by attending the annual meeting and voting in person.

Simply attending the annual meeting will not revoke a proxy. However, if an Allscripts stockholder holds shares in street name by his or her broker and has directed such person to vote his or her shares, he or she should instruct such person to change his or her vote.

What does it mean if I receive more than one proxy card?

Your shares are likely registered differently or are in more than one account. You should sign and return all proxy cards to guarantee that all of your shares are voted.

What constitutes a quorum?

The presence, in person or by proxy, of the holders of one-third of the total number of shares of Allscripts common stock issued and outstanding as of the record date constitutes a quorum. You will be considered part of the quorum if you return a signed and dated proxy card, if you vote by telephone or over the Internet, or if you attend the annual meeting.

Abstentions and broker non-votes are counted as shares present at the annual meeting for purposes of determining whether a quorum exists. A broker non-vote occurs when a bank or broker submits a proxy that does not indicate a vote for a proposal because he or she does not have voting authority and has not received voting instructions from you. Please note that banks and brokers cannot vote on their clients behalf on non-routine proposals, such as the election of directors and the amendment to the ESPP. Routine matters include the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered accounting firm.

What vote is required to approve the proposals?

Election of Directors: A plurality of the votes cast will elect directors. This means that the ten nominees who receive the highest number of votes will be elected. If you do not want to vote your shares for a particular nominee, you may indicate that in the space provided on the proxy card or withhold authority as prompted during telephone or Internet voting.

Approval of the Amendment to our ESPP to Increase the Number of Shares Available Thereunder by 250,000: Approval of this amendment to our ESPP requires the affirmative vote of a majority of the shares present or represented by proxy and having the power to vote at the annual meeting. A stockholder abstention will have the effect of a vote against the approval of the amendment, but a broker non-vote will have no effect.

Ratification of the Appointment of the Independent Registered Public Accounting Firm: Although we are not required to submit the appointment of our independent registered public accounting firm to a vote of stockholders, we believe that it is appropriate to ask that you ratify the appointment. Ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the seven month period

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ending December 31, 2010 requires the affirmative vote of a majority of the shares present or represented by proxy at the annual meeting. A stockholder abstention will have the effect of a vote against the ratification of the appointment of PricewaterhouseCoopers LLP.

How do I submit a stockholder proposal?

The deadline has passed for submitting a proposal to be raised at the 2010 Annual Meeting of Stockholders. To submit a proposal to be included in our proxy statement for the 2011 Annual Meeting of Stockholders, you must submit a proposal no later than December 31, 2010. Your proposal must comply with the proxy rules of the Securities and Exchange Commission (the SEC). You should send your proposal to our Secretary at our address on the cover of this proxy statement.

You also may submit a proposal that you do not want included in the proxy statement but that you want to raise at the 2011 Annual Meeting of Stockholders. We intend to have our annual meeting on May 20, 2011 and, as a result, we intend to mail the proxy statement to our stockholders on or about April 8, 2011. We must receive your proposal in writing on or after December 21, 2010, but no later than January 20, 2011. To be properly brought before an annual meeting, our by-laws require that your proposal give: (1) a brief description of the business you want to bring before the meeting; (2) your name and address as they appear on our stock records; (3) the class and number of shares of Allscripts that you beneficially own; and (4) any interest you may have in the business you want to bring before the meeting. You should send your proposal to our Secretary at the address on the cover of this proxy statement.

Who pays to prepare, mail and solicit the proxies?

We will pay all of the costs of preparing, mailing and soliciting these proxies. We will ask brokers, banks, voting trustees and other nominees and fiduciaries to forward the proxy materials to the beneficial owners of our common stock and to obtain the authority to execute proxies. In addition to mailing proxy materials, our directors, officers and employees may solicit proxies in person, by telephone or otherwise. These individuals will not be specially compensated.

How can I reduce the environmental impact of our annual meeting by requesting electronic delivery

of annual meeting materials?

We encourage you to choose electronic (e-mail) delivery of future annual meeting materials by visiting www.proxyvote.com. Please follow the Vote By Internet instructions on the proxy card or the Notice of Internet Availability of Proxy Materials and you will be provided with the opportunity to choose electronic delivery for future meeting materials.

Who can answer my questions?

If you have any questions about the annual meeting, please contact us at 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654; telephone: (312) 506-1230.

PROPOSAL 1 ELECTION OF DIRECTORS

The board of directors proposes (i) based on the recommendation of the Misys Nominating Committee, as to Messrs. John King and Stephen Wilson, (ii) based on the recommendation of the Eclipsys Nominating Committee, as to Messrs. Eugene Fife, Edward Kangas and Philip Pead, (iii) based on the recommendation of the Allscripts Nominating Committee, as to Messrs. Marcel L. Gus Gamache, Philip D. Green, Michael J. Kluger and Glen E. Tullman, and (iv) based on the recommendation of the Nominating and Governance Committee, as to Mr. Dennis Chookaszian, the nominees listed below, all of whom are currently serving as directors, to be elected for a new term expiring at the 2011 annual meeting. The Company s Chief Executive Officer recommended Mr. Chookaszian to the Nominating and Governance Committee for appointment to the board.

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The following professional biographies set forth the names of the persons proposed to be nominated for election as directors, their principal occupations, all positions and offices with Allscripts presently held by them and the date on which they were first elected or appointed as directors. The professional biography of each of the directors also contains information regarding some of the experiences, qualifications, attributes or skills that led to the conclusion that the nominee should serve as a director of Allscripts. In addition to the individual experiences and attributes of each of the directors described in the following professional biographies, Allscripts highly values the collective experiences and qualifications of the directors. We believe that the collective experiences, viewpoints and perspectives of our directors results in a board of directors with the commitment and energy to advance the interests of our stockholders.

Your shares will be voted in person at the annual meeting as you specify on the enclosed proxy card, by telephone or Internet voting. If you return a signed proxy card but do not specify how you want your shares voted, we will vote them **FOR** the election of each director nominee. If any of the director nominees is unable or fails to stand for election, the persons named in the proxy presently intend to vote your shares **FOR** a substitute nominee nominated by the applicable nominating committee. The board does not anticipate that any nominee will be unable to serve.

Pursuant to the Relationship Agreement between Allscripts and Misys, which indirectly holds approximately 10.2% of the outstanding shares of our common stock, Misys has agreed to cause all shares of our common stock held by it or any of its subsidiaries to be represented at each meeting where directors are to be elected and to be voted in favor of the election of all of the director nominees. For more information about the Relationship Agreement, see Certain Relationships and Related Party Transactions Relationship Agreement.

Pursuant to Allscripts by-laws and the terms of the merger agreement with Eclipsys, Allscripts has agreed to nominate Messrs. Tullman and Pead for election to the board of directors at the first three annual meetings of stockholders following the closing of the merger with Eclipsys.

The nominees have provided the following information about themselves.

Dennis H. Chookaszian, 67, was appointed to our board of directors in September 2010. Since 2007, Mr. Chookaszian has served as Chairman of the Financial Accounting Standards Advisory Council. From 1999 until 2001, Mr. Chookaszian served as Chairman and Chief Executive Officer of mPower, Inc., a financial advice provider focused on the on-line management of 401(k) plans. Mr. Chookaszian served as Chairman and Chief Executive Officer of CNA Insurance Companies from 1992 to 1999. During his 27-year career with CNA, Mr. Chookaszian held several management positions at the business unit and corporate levels, including President and Chief Operating Officer from 1990 to 1992 and Chief Financial Officer from 1975 to 1990. Mr. Chookaszian currently serves as a director of CME Group, Inc., Career Education Corporation, LoopNet, Inc. and Insweb Corp. and, within the past five years, has served as a director of Sapient Corporation. Mr. Chookaszian is a registered certified public accountant. The board of directors concluded that Mr. Chookaszian should continue to serve as a director of Allscripts in part due to his experience in finance and accounting, along with his wide range of business experience as a chief executive officer and public company board member.

Eugene V. Fife, 70, was appointed to our board of directors in August 2010. From April 2005 to November 14, 2005, Mr. Fife served as Chief Executive Officer and President of Eclipsys on an interim basis. Since December 1999, Mr. Fife has served as the founding principal of Vawter Capital, LLC, a private investment firm. Mr. Fife was formerly a general partner in Goldman Sachs & Co., where he served as a member of its Management Committee and as Chairman of Goldman Sachs International. He retired from Goldman Sachs & Co. in 1995, but continues to serve as a Senior Director of the firm. Mr. Fife is also a director of Caterpillar, Inc., a heavy equipment and engine manufacturer and had been a director of Eclipsys from May 1997 to August 2010 and served as Chairman of the Eclipsys board from January 2003 to August 2010. The board of directors concluded that Mr. Fife should continue to serve as a director of Allscripts in part due to his 26 years of experience in investment banking, which gives him insight regarding financial capital markets, strategic transactions and international business. In addition, Mr. Fife s former service as the interim Chief Executive Officer and President of Eclipsys and long board service at Eclipsys also provide an institutional wealth of knowledge about Eclipsys and the healthcare industry generally.

Marcel L. Gus Gamache, 67, was elected to our board of directors in August 2003. From 1994 to 2005, Mr. Gamache was President and Chief Executive Officer of ConnectiCare, a Farmington, Connecticut-based managed care company serving more than 270,000 members in Connecticut and western Massachusetts. Prior to his work at ConnectiCare, Mr. Gamache was employed for 19 years at Blue Cross and Blue Shield of Massachusetts where he served as internal auditor, Controller and Senior Vice President for Information Services. Mr. Gamache currently serves on the board of directors of a number of privately-held companies. The board of directors concluded that Mr. Gamache should continue to serve as a director of Allscripts in part due to his knowledge of the healthcare industry through his experience as the President and Chief Executive Officer of ConnectiCare as well as his prior work experience at Blue Cross and Blue Shield of Massachusetts.

Philip D. Green, 60, was elected to our board of directors in 1992 and serves as the board of directors lead independent director. Mr. Green is President of PDG Consulting, LLC, a healthcare IT consulting company. From July 2006 to November 30, 2008, Mr. Green was President, Strategic Business Initiatives, at the University of Pittsburgh Medical Center (UPMC). Before joining UPMC, Mr. Green was a partner with the law firm of Gardner Carton & Douglas, LLP since June 2004. From June 2000 to June 2004, Mr. Green was a partner with Akin, Gump, Strauss, Hauer & Feld, L.L.P. From 1989 to June 2000, Mr. Green was a partner with the law firm of Green, Stewart, Farber & Anderson, P.C., of which Mr. Green was a founding partner. From 1978 through 1989, Mr. Green was a partner in the Washington, D.C. based law firm of Schwalb, Donnenfeld, Bray & Silbert, P.C. The board of directors concluded that Mr. Green should continue to serve as a director of Allscripts in part due to his insight into the healthcare industry from his experience as President of PDG Consulting, LLC, his prior work experience at UPMC and his many years of legal experience.

Edward A. Kangas, 66, was appointed to our board of directors in August 2010. Mr. Kangas served as Chairman and Chief Executive Officer of Deloitte Touche Tohmatsu from 1989 to 2000. He also served as the Managing Partner of Deloitte & Touche (USA) from 1989 to 1994. He is a director of Hovnanian Enterprises Inc., a national homebuilder; Tenet Healthcare Corporation, a healthcare services company; Intuit, Inc., a software company focusing on consumer and small business financial products; and United Technologies Corp., a diversified company that provides high technology products and services to the building and aerospace industries. From 2004 to 2008, Mr. Kangas also served as a director of Electronic Data Systems Corporation, a provider of technology and outsourcing services, and from June 2004 to August 2010, Mr. Kangas served as a director of Eclipsys. Mr. Kangas is a Certified Public Accountant. The board of directors concluded that Mr. Kangas should continue to serve as a director of Allscripts in part due to his current and past experience serving as a director of companies in industries that are highly relevant to Allscripts business, including hospitals, software, technology, professional services, and outsourcing. Mr. Kangas also has international, accounting and financial experience, acquired through years managing Deloitte & Touche and oversight of audits of companies in a wide range of industries.

John King, 71, was appointed to our board of directors in October 2008. Since 1999, Mr. King has served as President of John G. King Associates, LLC, a healthcare consulting company. Mr. King has over 30 years experience in the U.S. healthcare industry, including as President and Chief Executive Officer of Legacy Health System until 1999. Prior to Legacy, Mr. King was President and Chief Executive Officer of Evangelical Health Systems (now Advocate Health Systems). He is a member of the American Hospital Association and a fellow in the American College of Healthcare Executives. Mr. King serves on the boards of the Pacific University of Oregon and has been a non-executive director of Misys since November 2005. The board of directors concluded that Mr. King should continue to serve as a director of Allscripts in part due to his knowledge of the healthcare industry through his over 30 years of work experience in the healthcare industry.

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Michael J. Kluger, 53, was elected to our board of directors in 1994. Since November 2001, Mr. Kluger has been a Managing Director of Altaris Capital Partners LLC, a private equity healthcare firm. From 1992 to November 2001, Mr. Kluger served as a Managing Director of Liberty Capital Partners, Inc., a New York investment management firm and the general partner of Liberty Partners, L.P. From June 2001 to March 2005, Mr. Kluger served on the board of directors of ConnectiCare, Inc. The board of directors concluded that Mr. Kluger should continue to serve as a director of Allscripts in part due to his familiarity with investment banking as it relates the healthcare industry.

Philip M. Pead, 58, was appointed chairman of our board of directors in August 2010 and, upon completion of the merger with Eclipsys, became a member of our senior management. From May 2009 to August 2010, Mr. Pead served as President and Chief Executive Officer of Eclipsys. From March 2007 to May 2009, Mr. Pead served as the Managing Partner of Beacon Point Partners LLC, a healthcare consulting firm. Mr. Pead served as President and Chief Executive Officer of Per-Se Technologies Inc., a provider of healthcare information technology services, from November 2000 until its acquisition by McKesson Corporation in January 2007. Mr. Pead also served as the Chairman of Per-Se beginning in May 2003, having joined the company in 1997. While at Per-Se, he also served as Executive Vice President and Chief Operating Officer from August 1999 to November 2000. Previously, Mr. Pead served as the Senior Vice President with responsibility for international operations of Dun & Bradstreet Software Services, Inc., a leading developer of software; and as Vice President with responsibility for overseeing the Asian and Latin American operations of Attachmate Corporation, a leading provider of hosted connectivity solutions. Mr. Pead serves as a director of Emdeon Inc., a provider of revenue and payment cycle management solutions, and served as a director of Eclipsys from February 2009 to August 2010. The board of directors concluded that Mr. Pead should continue to serve as a director of Allscripts in part due to his lengthy career in the software and health information technology industry, including former service as the Chairman, President and Chief Executive Officer of Per-Se Technologies, and from May 2009 to August 2010, his position as the President and Chief Executive Officer of Eclipsys.

Glen E. Tullman, 51, joined Allscripts as Chief Executive Officer in August 1997 to lead our transition into the healthcare information sector. In May 1999, Mr. Tullman was elected to our board of directors. Prior to joining Allscripts, from October 1994 to July 1997, Mr. Tullman was Chief Executive Officer of Enterprise Systems, Inc., a healthcare information services company providing resource management solutions to large integrated healthcare networks. From 1983 to 1994, Mr. Tullman served in a number of management roles, including President and Chief Operating Officer, of CCC Information Services, Inc., a provider of information systems to property and casualty insurers. Mr. Tullman currently serves on the International Board of the Juvenile Diabetes Research Foundation. The board of directors concluded that Mr. Tullman should continue to serve as a director of Allscripts because of his understanding of the operations of Allscripts and the industry in which it operates in part due to his role as our Chief Executive Officer and his many years of healthcare related experience.

Stephen Wilson, 50, was appointed to our board of directors in November 2009. Since June 2010, Mr. Wilson has served as Chief Financial Officer of Misys. Mr. Wilson joined Misys in May 2009 with responsibility for Investor Relations, Corporate Development, Tax, Treasury and Internal Audit. Prior to joining Misys, Mr. Wilson spent 25 years at IBM. From 2002 to April 2009 he was Chief Financial Officer of IBM s business in the UK, Ireland and South Africa. From 1996 to 2001 he was assigned to IBM s European Headquarters in Paris, with responsibility for all merger and acquisition activity in EMEA. This assignment followed a period from 1994 to 1996 working in Corporate Development at IBM s headquarters in Armonk, New York. His earlier experience at IBM included a wide variety of financial and managerial roles and prior to joining IBM he worked in Finance at Ford Motor Company from 1980 to 1984. The board of directors concluded that Mr. Wilson should continue to serve as a director of Allscripts in part due to experience at Misys and his experience with respect to mergers and acquisitions.

The board of directors recommends a vote FOR each of the nominees for director.

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Corporate Governance Matters

Governance

Code of Conduct

Allscripts has adopted a Code of Conduct that applies to all of our directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer and senior financial and accounting officers. Our Code of Conduct requires that all of our directors, officers and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in Allscripts best interest. We maintain a current copy of our Code of Conduct, and will promptly post any amendments to or waivers of our Code of Conduct, on our website at www.allscripts.com. Stockholders may request a written copy of the Code of Conduct by contacting our Secretary, Lee Shapiro, at Allscripts Healthcare Solutions, Inc., 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654.

In furtherance of our procedures to ensure compliance with the Sarbanes Oxley Act of 2002, each of our employees is required to complete an annual on-line, interactive education program concerning policies of our Code of Conduct.

Board Leadership

Currently, Mr. Green serves as our lead independent director and focuses on key governance issues, board self-evaluations and the Chief Executive Officer evaluation In addition, Mr. Green works with our Chairman of the Board, Mr. Pead, and our Chief Executive Officer, Mr. Tullman, to ensure that the board discharges its responsibilities, has structures and procedures in place to enable it to function independently of management and clearly understands the respective roles and responsibilities of the board and management. In addition, Mr. Green s duties include convening and chairing regular executive session meetings of the non-management directors, coordinating feedback to the Chairman and Chief Executive Officer on behalf of the independent directors regarding business issues and management, and performing such other duties as may be necessary for the board to fulfill its responsibilities or as may be requested by the board as a whole, by the non-management directors, or by the Chairman of the Board.

The board of directors believes that having executives serving as Chairman and Chief Executive Officer and a lead independent director having significant and well-defined responsibilities as described above enhances the Chairman s and Chief Executive Officer s abilities to provide insight and direction on important strategic initiatives to both management and the independent directors and, at the same time, ensures that the appropriate level of independent oversight is applied to all decisions of the board of directors, and accordingly facilitates the overall functioning of the board of directors.

Board s Role in Risk Oversight

The board of directors involvement in risk oversight includes both formal and informal processes and involves the board of directors and committees of the board of directors. On a periodic basis, when determined by the board of directors or by Allscripts management to be advisable, the board of directors or selected committees of the board of directors will undertake a formal enterprise risk assessment at which risks facing Allscripts and associated responses are evaluated in detail. The board of directors expects to conduct enterprise risk assessments on a periodic basis as determined to be appropriate.

The board of directors and committees of the board of directors are also involved in risk oversight on a more informal basis at regular board and committee meetings. The Audit Committee receives materials on a quarterly basis to address the identification and status of risks to Allscripts, including financial risks and litigation claims and risks. At meetings of the full board of directors, these risks are identified to board members, and the Chairman of the Audit Committee reports on the activities of the Audit Committee regarding risk analysis. The other committees of the board of directors also consider and address risk as they perform their respective responsibilities, and such committees report to the full board of directors from time to time as appropriate, including whenever a matter rises to the level of a material or enterprise level risk. The board of directors also receives regular financial and business updates from senior management, which updates involve detailed reports on financial and business risks facing Allscripts when applicable.

Risk Management and Compensation

The Company compensates its employees with base salaries along with incentive programs designed to encourage behavior which is supportive of the long-term interests of the corporation. In fiscal 2011, the Company performed a comprehensive review of its compensation policies and programs to determine whether such policies and programs encourage unnecessary or inappropriate risk-taking by the Company s employees. In connection with this review, management and our fiscal 2011 independent compensation consultant, Frederic W. Cook & Co., Inc., reviewed the risks associated with the Company s compensation policies and programs, including risks under the Company s various incentive programs associated with the form in which compensation is paid (*i.e.*, fixed v. variable), performance metrics, payout opportunities as well as payment timing and adjustment provisions. Based on this review, the Company concluded that the risks arising from these programs are not reasonably likely to have a material adverse effect on the Company.

Director Independence

A majority of our current directors qualify as independent in accordance with the listing requirements of NASDAQ. During fiscal 2010, we qualified as a controlled company under Rule 5615(c)(1) of the NASDAQ Marketplace Rules because Misys, through it subsidiaries, held more than 50% of the power to vote for the election of our directors. As a controlled company, under Rule 5615(c)(2) of the NASDAQ Marketplace Rules, we were exempt from the requirement to have: (i) a majority of directors who qualified as independent directors pursuant to the NASDAQ Marketplace Rules; (ii) the compensation of our executive officers determined by a majority of independent directors or a compensation committee composed solely of independent directors; and (iii) our director nominees selected, or recommended for our board s selection, by either a majority of the independent directors or a nominating committee composed solely of independent directors. Accordingly, as a result of our status as a controlled company, a majority of our directors serving during fiscal 2010 did not qualify as independent directors under the NASDAQ rules.

The NASDAQ definition of independence includes a series of objective tests, such as that the director is not an employee of the company and has not engaged in various types of business dealings with the company. As required by NASDAQ rules, the board has considered the independence of each director currently serving on the board, or who served on the board at any time during fiscal 2010, and has made a subjective determination as to Messrs. Chookaszian, Fife, Gamache, Green, Kangas, King and Kluger, who have each been determined to be independent within the meaning of independence under the listing standards of NASDAQ, that no relationships exist which, in the opinion of the board, would interfere with the exercise of independent judgment in carrying out their responsibilities of a director. In making these determinations, the board reviewed and discussed information provided by each director and by Allscripts with regard to each director s business and personal activities as they may relate to Allscripts and Allscripts management. With respect to Mr. Green, the board considered that, in December 2008, Mr. Green entered into a consulting arrangement with Innovative Health Strategies LLC, a subsidiary of Drinker Biddle & Reath LLP, a law firm that is providing, and may continue to provide in the future, legal services to Allscripts and the Audit Committee. With respect to Mr. King, the board considered that Mr. King currently serves as a non-executive director of Misys, the Company s former controlling stockholder.

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Meetings and Committees of the Board of Directors

Board Composition and Meetings

Our board consists of ten members. Pursuant to our certificate of incorporation and bylaws, our board includes:

- four directors recommended to the board for election by our Allscripts Nominating Committee, which consists solely of legacy Allscripts directors who are determined to be independent under NASDAQ rules;

- three directors recommended to the board for election by our Eclipsys Nominating Committee, which consists solely of legacy Eclipsys directors who are determined to be independent under NASDAQ rules;

- two directors recommended to the board for election by our Misys Nominating Committee, which consists solely of directors nominated by Misys; and

- one director recommended to the board for election by our Nominating and Governance Committee, which consists solely of directors who are determined to be independent under NASDAQ rules.

The selection of directors is further described below under the heading Nominations for Directors below.

From June 1, 2009 until November 30, 2009, the members of our board were Kelly J. Barlow, Sir Dominic Cadbury, Cory A. Eaves , Marcel L. Gus Gamache, Philip D. Green, John King, Michael J. Kluger, Michael Lawrie, and Glen Tullman. On November 30, 2009, the Nominating and Governance Committee appointed Mr. Stephen Wilson to the board. In connection with the reduction in share ownership by Misys, on August 20, 2010, Kelly Barlow, Dominic Cadbury, Cory Eaves and Michael Lawrie resigned as members of the board of directors and, in connection with the merger with Eclipsys, on August 24, 2010, Eugene Fife, Edward Kangas and Philip Pead were appointed to the board of directors to hold office until the next annual meeting of stockholders. On September 16, 2010, Dennis Chookaszian was appointed to the board of directors to hold office until the next annual meeting of stockholders. The current members of the board of directors are Dennis Chookaszian, Eugene Fife, Marcel L. Gus Gamache, Philip D. Green, Edward Kangas, John King, Michael J. Kluger, Philip Pead, and Glen Tullman, with Mr. Pead serving as our Chairman of the Board and Mr. Green serving as our lead independent director.

Based upon information requested from and provided by each director concerning his background and employment and affiliations, including family relationships, our board determined that each of Messrs. Chookaszian, Fife, Gamache, Green, Kangas, King and Kluger was an independent director.

During fiscal 2010, our board met 16 times. In addition to meetings of the full board, directors attended meetings of the board committees. During fiscal 2010, all board members attended at least 75% of the board meetings and requisite committee meetings during the period of their service. Allscripts has a standing Audit Committee, Compensation Committee and Nominating and Governance Committee. Each committee is governed by a charter approved by the board.

Audit Committee

The Audit Committee is responsible for ensuring the integrity of the financial information reported by Allscripts. In accordance with its written charter, the Audit Committee is directly responsible for appointment, compensation, retention and oversight of the work of the independent registered public accounting firm, approves the scope of annual audits performed by the independent registered public accounting firm and reviews the results of those audits. In addition, the Audit Committee oversees the accounting and financial reporting process of Allscripts and meets with management, the independent registered public accounting firm and Allscripts

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internal staff to review audit results and opinions, as well as financial, accounting and internal control matters. The Audit Committee also is responsible for reviewing all related party transactions and has the authority to approve all such transactions.

From June 1, 2009 through August 20, 2010, Marcel L. Gus Gamache (Chairman), Philip D. Green and Michael J. Kluger served on the Audit Committee. The current members of the Audit Committee are Marcel L. Gus Gamache, Edward Kangas and Michael J. Kluger. Mr. Gamache serves as the Chairman of the Audit Committee. The board of directors has determined that each of the members of the Audit Committee is independent in accordance with the regulations of the SEC and the listing standards of NASDAQ. In addition, the board has determined that each member of the Audit Committee has a working familiarity with basic finance and accounting practices, including the ability to read and understand financial statements. Finally, the board has determined that Messrs. Gamache and Kangas are each an audit committee financial expert under the rules of the SEC. The Audit Committee has adopted a charter that specifies the composition and responsibilities of the committee. A copy of the Audit Committee Charter is posted on our website at www.allscripts.com and is available to stockholders upon written request made to our Secretary, Lee Shapiro, at Allscripts Healthcare Solutions, Inc., 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654. During fiscal 2010, the Audit Committee met 28 times, which included numerous meetings relating to the transactions contemplated by the Framework Agreement.

Compensation Committee

The Compensation Committee determines executive officers salaries, bonuses and other compensation and administers our Amended and Restated 1993 Stock Incentive Plan, our 2001 Non-statutory Stock Option Plan and the Eclipsys equity plans. Additionally, the Compensation Committee makes recommendations to the board regarding the compensation of non-management directors.

From June 1, 2009 through August 20, 2010, Michael Lawrie (Chairman), Philip D. Green and Michael J. Kluger served on the Compensation Committee. The current members of the Compensation Committee are Philip D. Green, Edward Kangas and Michael J. Kluger. Mr. Kangas serves as the Chairman of the Compensation Committee. The board of directors has determined that each of the current members of the Compensation Committee is independent in accordance with the regulations of the SEC and the listing standards of NASDAQ. Mr. Lawrie, who served as the Chairman of the Compensation Committee until August 20, 2010, was determined by the board to not be independent in accordance with the regulations of the SEC and the listing standards of NASDAQ. The Compensation Committee has adopted a charter that specifies the composition and responsibilities of the Compensation Committee, which is posted on our website at www.allscripts.com and is available to stockholders upon written request made to our Secretary, Lee Shapiro, at Allscripts Healthcare Solutions, Inc., 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654. During fiscal 2010, the Compensation Committee met nine times.

The Compensation Committee periodically reviews the compensation program for non-employee directors in comparison to the practices of a peer group. Based upon this review, the Compensation Committee may recommend to the board adjustments to the compensation of non-employee directors to bring director compensation in line with competitive practices. The pay objective for non-employee directors is to provide a competitive level and mix of pay that enhances Allscripts ability to attract and retain highly qualified directors. For additional information regarding the Compensation Committee, see Executive Compensation Compensation Discussion and Analysis.

Nominating and Governance Committees

Nominating and Governance Committee

The Nominating and Governance Committee leads the board in its annual review of the board s performance; reviews and assesses succession planning; and makes recommendations to the board with respect to the assignment of individual directors to various committees. In addition, the Nominating and Governance

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Committee assists the board of directors in identifying qualified individuals to become board members, and to recommend to the board certain director nominees for the next annual meeting of stockholders. The Nominating and Governance Committee has adopted a charter that specifies its composition and responsibilities, which is posted on our website at www.allscripts.com and is available to stockholders upon written request made to our Secretary, Lee Shapiro, at Allscripts Healthcare Solutions, Inc., 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654.

From June 1, 2009 through August 20, 2010, Marcel L. Gus Gamache, Michael Lawrie and John King served on the Nominating and Governance Committee. The current members of the Nominating and Governance Committee are Eugene Fife, Marcel L. Gus Gamache, Philip D. Green, John King and Michael Kluger, with Mr. Kluger serving as Chairman. The board of directors has determined that each of the current members of the Nominating and Governance Committee is independent in accordance with the regulations of the SEC and the listing standards of NASDAQ. During fiscal 2010, the Nominating and Governance Committee met one time.

Allscripts Nominating Committee

The Allscripts Nominating Committee, which was formed on August 24, 2010, is comprised of three independent directors and its responsibilities include:

- nominating to the board up to four (4) directors for directorships; and
- nominating to the board replacements for vacancies on the board of directors nominated by the Allscripts Nominating Committee.

The Allscripts Nominating Committee will dissolve immediately following our 2011 annual meeting of stockholders.

The Allscripts Nominating Committee has adopted a charter that specifies its composition and responsibilities, which is posted on our website at www.allscripts.com and is available to stockholders upon written request made to our Secretary, Lee Shapiro, at Allscripts Healthcare Solutions, Inc., 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654.

Marcel L. Gus Gamache, Philip D. Green and Michael Kluger have served on the Allscripts Nominating Committee since its inception. The board has determined that each of the current members of the Allscripts Nominating Committee is independent in accordance with the regulations of the SEC and the listing standards of NASDAQ.

Eclipsys Nominating Committee

The Eclipsys Nominating Committee, which was formed on August 24, 2010, is comprised solely of legacy Eclipsys directors both of whom are independent. The Eclipsys Nominating Committee s responsibilities include:

- nominating to the board up to three (3) directors for directorships; and
- nominating to the board replacements for vacancies on the board of directors nominated by the Eclipsys Nominating Committee.

The Eclipsys Nominating Committee will dissolve immediately following our 2011 annual meeting of stockholders.

The Eclipsys Nominating Committee has adopted a charter that specifies its composition and responsibilities, which is posted on our website at www.allscripts.com and is available to stockholders upon written request made to our Secretary, Lee Shapiro, at Allscripts Healthcare Solutions, Inc., 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654.

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Eugene Fife and Edward Kangas have served on the Eclipsys Nominating Committee since its inception. The board has determined that each of the current members of the Eclipsys Nominating Committee is independent in accordance with the regulations of the SEC and the listing standards of NASDAQ.

Misys Nominating Committee

The Misys Nominating Committee, which was formed on August 24, 2010, is comprised of two directors nominated by Misys and its responsibilities include:

- nominating to the board up to two (2) directors for directorships; and

- nominating to the board replacements for vacancies on the board of directors nominated by the Misys Nominating Committee.

Pursuant to the Framework Agreement, on August 20, 2010, Allscripts and Misys entered into an Amended and Restated Relationship Agreement (the Amended and Restated Relationship Agreement). The Amended and Restated Relationship Agreement reduces the number of Allscripts directors that Misys has a right to nominate from six to two directors and provides that such number will be permanently reduced to one director if Misys owns less than 15.5 million shares of Allscripts common stock. The Amended and Restated Relationship Agreement further provides that such right will be permanently eliminated if Misys owns less than 5.0% of the then outstanding shares of Allscripts common stock or takes certain actions specified in the standstill provision contained in the Amended and Restated Relationship Agreement. For more information about the Amended and Restated Relationship Agreement, see Certain Relationships and Related Party Transactions Relationship Agreement.

The Misys Nominating Committee has adopted a charter that specifies its composition and responsibilities, which is posted on our website at www.allscripts.com and is available to stockholders upon written request made to our Secretary, Lee Shapiro, at Allscripts Healthcare Solutions, Inc., 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654.

Messrs. King and Wilson have served on the Misys Nominating Committee since its inception.

Communications with Directors

Interested parties may communicate concerns to any of our non-management directors by writing to the director in care of our Secretary, Lee Shapiro, at Allscripts Healthcare Solutions, Inc., 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654. In accordance with the policy adopted by our non-management directors, our Secretary will promptly relay to the addressee all communications that he determines require prompt attention by a non-management director and will regularly provide the non-management directors with a summary of all communications addressed to non-management directors.

Nominations for Directors

The Nominating and Governance Committee, Allscripts Nominating Committee, Eclipsys Nominating Committee and Misys Nominating Committee share responsibility, as detailed above, for the proposal of nominees for service as directors and each will consider recommendations offered by stockholders in accordance with our by-laws. Individuals are selected as director nominees based on their business and professional accomplishments, integrity, demonstrated ability to make independent analytical inquiries, diversity, ability to understand our business and willingness to devote the necessary time to board duties. While the Nominating and Governance Committee believes that a diversity of perspectives is an important consideration when evaluating new candidates, the Nominating and Governance Committee has focused on specific healthcare and related industry experiences when evaluating new candidates for the board. The effectiveness of the nomination process is evaluated by the board each year as part of its annual self-evaluation and less formally by the Nominating and

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Governance Committee as it evaluates and identifies director candidates. An existing director s qualifications in meeting these criteria are considered each time such director is re-nominated for board membership. Assuming that appropriate biographical and background information is provided to the applicable nominating committee, such committee would apply the same process and standards to the evaluation of each potential director nominee, regardless of whether he or she is recommended by one or more stockholders or is identified by some other method.

Each of the nominating committees may hire outside advisors to assist in identifying and/or evaluating potential director nominees. None of the committees utilized outside advisors in deciding to nominate the director candidates for the upcoming annual meeting of stockholders. If you wish to recommend a nominee for director for the 2011 Annual Meeting of Stockholders, pursuant to our by-laws, our Secretary must receive your written nomination on or after December 21, 2010, but no later than January 20, 2011. You should submit your proposal to the Secretary, Lee Shapiro, at Allscripts Healthcare Solutions, Inc., 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654. Our by-laws require that you provide: (a) as to each person whom you propose to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of Allscripts which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to the proxy rules of the SEC; and (b) as to you (i) your name and record address and the name and record address of any associated person on whose behalf the nomination is made, (ii) the class or series and number of shares of capital stock of Allscripts which are owned beneficially or of record by you or such associated person, (iii) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of, or any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares) has been made, the effect or intent of which is to mitigate loss to or manage risk or benefit of share price changes for, or to increase or decrease the voting power of, you or such associated person with respect to any share of stock of Allscripts (which information shall be updated by you and such associated person, if any, as of the record date of the meeting not later than ten days after the record date for the meeting), (iv) a description of all arrangements or understandings between you or such associated person and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by you, (v) a representation that you are a holder of record of stock of Allscripts entitled to vote at such meeting and intend to appear in person or by proxy at the annual meeting to nominate the persons named in your notice and (vi) any other information relating to you or such associated person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to the proxy rules of the SEC. Such nomination must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected. No person shall be eligible for election as a director unless nominated in accordance with the procedures set forth in our by-laws.

Attendance at Annual Meeting

All members of our board of directors are invited to attend our annual meeting of stockholders. Their attendance, however, is not required. Last year, Mr. Tullman represented the board at our annual meeting of stockholders.

Stock Ownership Requirements

All non-employee directors are subject to a minimum stock ownership requirement (including stock options, restricted stock and restricted stock units) of $160,000 in value, which is four times the fiscal 2010 basic annual fee for service as a director.

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Director Compensation

Fiscal 2010 Non-Employee Director Compensation Table

The table below summarizes compensation for non-employee directors during fiscal 2010.

	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	Total ($)
Kelly J. Barlow (2)	40,000		40,000
Sir Dominic Cadbury	26,700	125,008	151,708
Cory A. Eaves	36,667	125,008	161,675
Marcel L. Gus Gamache	70,000	124,997	194,997
Philip D. Green	40,000	124,997	164,997
John King	40,000		40,000
Michael J. Kluger	40,000	124,997	164,997
Michael Lawrie (3)			
Stephen Wilson (3)			

(1) The amounts shown in this column are valued based on the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation (FASB ASC Topic 718). The restricted stock unit awards vest in full on the first anniversary of the grant date. Such awards become fully vested in the event of a Change of Control of Allscripts, as defined in the Restricted Stock Unit Award Agreements relating to such grants, and, as to each director, in the event such director is not re-elected to Allscripts board of directors. See Note 8 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2010 for additional information regarding the application of FASB ASC Topic 718 in fiscal 2010.

As of May 31, 2010, the following restricted stock unit and option awards were outstanding with respect to each director: Marcel L. Gus Gamache 7,594 (restricted stock units), 83,918 (options); Philip D. Green 7,594 (restricted stock units), 0 (options); Michael J. Kluger 7,594 (restricted stock units), 81,052 (options); Sir Dominic Cadbury 7,517 (restricted stock units), 0 (options); and Cory A. Eaves 7,517 (restricted units), 0 (options). No other non-employee directors held restricted stock units or options as of May 31, 2010.

(2) Mr. Barlow s director fees were paid to ValueAct Capital.

(3) Messrs. Lawrie and Wilson did not receive any compensation for their services as a director of Allscripts; however, both performed management services for Allscripts pursuant to the Shared Services Agreement. Please see Certain Relationships and Related Party Transactions Shared Services Agreement for a description of the Shared Services Agreement as well as the fees paid by Allscripts to Misys during fiscal 2010 for such services.

Fiscal 2010 Director Compensation

During fiscal 2010, the cash compensation for our non-employee and non-affiliated directors was $10,000 per quarter. Each non-employee director was reimbursed for travel expenses incurred when attending meetings. Under our Amended and Restated 1993 Stock Incentive Plan, certain non-employee directors are eligible to receive stock awards in the form of stock options, restricted stock or restricted stock units at the discretion of the board of directors or the Compensation Committee. In fiscal 2010, the Company made restricted stock unit grants, each of which was approximately $125,000 in grant date fair value, to Messrs. Eaves, Gamache, Green, and Kluger and Sir Cadbury, the non-employee directors who were unaffiliated with Misys on the date of grant. In addition, the Chairman of the Audit, Compensation and Nominating and Governance Committee received an additional $20,000, $10,000 and $10,000, respectively, for their services as Chairman of the respective committees. Mr. Tullman, who is our Chief Executive Officer, Mr. Lawrie, who was our Chairman of the Board during fiscal 2010, and Mr. Wilson, a member of senior management of Misys, did not receive any additional compensation for services as a director during fiscal 2010.

Employment Agreement with Chairman of the Board

In connection with Allscripts merger with Eclipsys, Philip M. Pead, the former President and Chief Executive Officer of Eclipsys, became the Chairman of the Board of Directors of Allscripts and a member of Allscripts senior management. Related to such employment, Mr. Pead entered into an employment agreement with Allscripts. Pursuant to the employment agreement, Mr. Pead reports to, and his duties are assigned by, the board of directors, and his initial duties will be carried out in collaboration with Glen Tullman, our Chief Executive Officer. The term of the employment agreement is three years from the closing of the Eclipsys merger, with automatic one-year renewals unless notice of termination by either Mr. Pead or Allscripts is given at least 90 days prior to the expiration of the term. Mr. Pead s annual base salary is $675,000, and his annual target bonus opportunity is 100% of base salary. At the time of the closing of the Eclipsys merger, Mr. Pead s outstanding Eclipsys stock option awards became fully vested and (per the merger agreement) such awards were converted to options on Allscripts stock. Upon a termination by Allscripts without Cause or by Mr. Pead for Constructive Discharge (as such terms are defined in the employment agreement), Mr. Pead will receive 12 months of continued base salary plus target bonus, 12 months of continued health and dental coverage and, with respect to outstanding equity awards, pro rata vesting of the current vesting tranche plus one additional year s vesting. If such a termination occurs within two years after a Change of Control (as defined in the employment agreement) or within 180 days before a Change of Control and in connection with such event, Mr. Pead will receive two times the value of his annual base salary plus target bonus, 12 months of continued health and dental coverage and full vesting of outstanding equity awards. Mr. Pead will be subject to noncompetition and non-solicitation of employees covenants during his employment and for one year thereafter, as well as confidentiality restrictions and Allscripts stock ownership requirements.

Executive Officers

Following is certain information about the executive officers of Allscripts as of September 24, 2010, based on information furnished by them.

Philip M. Pead, 58, was appointed chairman of our board of directors in August 2010 and, upon completion of the merger with Eclipsys, became a member of our senior management. From May 2009 to August 2010, Mr. Pead served as President and Chief Executive Officer of Eclipsys. From March 2007 to May 2009, Mr. Pead served as the Managing Partner of Beacon Point Partners LLC, a healthcare consulting firm. Mr. Pead served as President and Chief Executive Officer of Per-Se Technologies Inc., a provider of healthcare information technology services, from November 2000 until its acquisition by McKesson Corporation in January 2007. Mr. Pead served as the Chairman of Per-Se beginning May 2003, having joined the company in 1997. While at Per-Se, he also served as Executive Vice President and Chief Operating Officer from August 1999 to November 2000. Previously, Mr. Pead served as the Senior Vice President with responsibility for international operations of Dun & Bradstreet Software Services, Inc., a leading developer of software; and as Vice President with responsibility for overseeing the Asian and Latin American operations of Attachmate Corporation, a leading provider of hosted connectivity solutions. Mr. Pead serves as a director of Emdeon Inc., a provider of revenue and payment cycle management solutions, and served as a director of Eclipsys from February 2009 to August 2010.

Glen E. Tullman, 51, joined Allscripts as Chief Executive Officer in August 1997 to lead our transition into the Healthcare Information Sector. In May 1999, Mr. Tullman was elected to our board of directors. Prior to joining Allscripts, from October 1994 to July 1997, Mr. Tullman was Chief Executive Officer of Enterprise Systems, Inc., a healthcare information services company providing resource management solutions to large integrated healthcare networks. From 1983 to 1994, Mr. Tullman served in a number of management roles, including President and Chief Operating Officer, of CCC Information Services, Inc., a provider of information systems to property and casualty insurers. Mr. Tullman currently serves on the International Board of the Juvenile Diabetes Research Foundation.

William J. Davis, 42, became our Chief Financial Officer in October 2002, and is responsible for Allscripts financial operations. Mr. Davis was the Chief Financial Officer of Lante Corporation, an Internet consulting

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company, from 2000 to August 2002 and was Controller of Lante Corporation from 1999 through 2000. From 1991 through 1999, Mr. Davis was a Senior Manager in the Technology Group of PricewaterhouseCoopers LLP. Mr. Davis currently serves on the board of directors of SXC Health Solutions Corp.

Lee A. Shapiro, 54, became President of Allscripts in 2002 and has been with Allscripts since April 2000. Mr. Shapiro has directed our strategic initiatives, including our recently completed transactions with Eclipsys and Misys, the prior merger with Misys Healthcare and the sale of our Physician s Interactive and Medication Solutions Group. He was also instrumental in the acquisitions of A4 Health Systems, Inc., ChannelHealth Incorporated, Advanced Imaging Concepts, Inc. and RxCentric. Prior to joining Allscripts, Mr. Shapiro was the Chief Operating Officer of Douglas Elliman-Beitler, a commercial office management and development company, where he directed all business activities throughout the United States. Previously, Mr. Shapiro was President of SES Properties, Inc., a closely held, fully integrated real estate company based in Carlsbad, California. Concurrently, Mr. Shapiro formed City Financial Bancorp and served as its Vice Chairman, responsible for acquisition of financial institutions, financing, regulatory issues, legal affairs, review and restructuring of operations and the ultimate sale of the company. Mr. Shapiro also practiced commercial law at Barack, Ferrazzano, Kirschbaum, Perlman & Nagelberg, a Chicago law firm. Mr. Shapiro currently serves on the board of directors of Physicians Interactive and as an officer and director of the Gastro-Intestinal Research Foundation. He also was appointed to the Economic Recovery Commission of the State of Illinois during its seating in 2009-2010.

Eileen McPartland, 55, became Chief Operating Officer of Allscripts on June 1, 2009. Ms. McPartland is responsible for the operations of Allscripts development, service, support and associated teams. From January 2007 through June 1, 2009, Ms. McPartland served as Executive Vice President of Global Sales and Services for Misys, where she led the effort to build Misys services and solutions offerings to customers across banking and healthcare businesses. Prior to joining Misys, Ms. McPartland was Senior Vice President, North America Consulting, at Oracle Corporation. In that position, she held responsibility for Oracle s application, technology and Indian offshore consulting practices. Prior to that, Ms. McPartland held the position of Senior Vice President, Global Services at Siebel Systems (now a part of Oracle), leading the Americas, Europe and Asia. Before joining Siebel Systems, Ms. McPartland was vice president and general manager of Gartner Research, where she oversaw a global research operation.

Jeff A. Surges, 43, joined Allscripts in December 2007 in connection with Allscripts acquisition of Extended Care Information Network, Inc. (ECIN). Mr. Surges currently is the Group President of Sales, and Mr. Surges is responsible for company-wide sales. Mr. Surges has nearly 20 years of experience managing high-growth technology companies in the healthcare and information services industries, most recently serving as President and Chief Executive Officer of ECIN before being acquired by Allscripts. Prior to joining ECIN in October 1999, Mr. Surges was General Manager of McKessonHBOC s Resource Management Group, a supply management and healthcare information technology company. Mr. Surges joined HBOC in 1997 in connection with its acquisition of Enterprise Systems, Inc. Mr. Surges has served on the board of Merge Healthcare Inc. since June 2010.

Kent Alexander, 51, joined Allscripts in September 2010. Prior to joining Allscripts, Mr. Alexander was Senior Vice President and General Counsel of Emory University, a private research university and healthcare provider. Mr. Alexander joined Emory in 2000, managing the legal affairs of the University and of Emory Healthcare, comprised of three fully-owned hospitals, a 1500-physician practice group and several affiliates. Mr. Alexander is a former partner at King & Spalding LLP where he represented corporate clients and executives from 1992 to 1994 and again from late 1997 to 2000. He also served for over a decade in the United States Attorney s office in Atlanta, first as an assistant United States Attorney from 1985 to 1992 and later as the presidentially-appointed U.S. Attorney from 1994 to 1997. Mr. Alexander has been appointed to state pro-bono leadership posts by Georgia Governors consecutively since 1999, including the Georgia State Ethics Commission.

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John P. Gomez, 46, joined Allscripts in August 2010. Prior to joining Allscripts, Mr. Gomez served as the Executive Vice President and Chief Technology Strategy Officer of Eclipsys since December 2004. Mr. Gomez joined Eclipsys as Senior Vice President and Chief Technology Officer in August 2003. Prior to joining Eclipsys, he served from October 2002 to January 2003 as Senior Vice President and Chief Technology Officer at WebMD Corporation, a provider of health information services and publications. Prior to that, Mr. Gomez served from February 2001 to October 2002 as Chief Technology Officer and Senior Vice President of strategic business development at Brill Media Holdings, an e-commerce and media publication company. Previously, Mr. Gomez held management technology positions at Microsoft Corporation, HRBlock Advanced Technology and KYMA Technologies, Inc.

Laure McGraw, 46, joined Allscripts in January 2001 as a result of the acquisition of IDX Systems Corporation s Internet subsidiary, ChannelHealth. Ms. McGraw is the President of Strategic Accounts. Ms. McGraw has spent the past fifteen years focused on clinical automation in various roles running implementations, development, and service groups with IDX and Allscripts. Ms. McGraw has served on the 2004 Board of Examiners for the Baldrige National Quality Program and is currently on the Board of Directors for TechAmerica.

Diane Adams, 50, joined Allscripts in August 2009. Diane Adams is our Executive Vice President, Culture and Talent. Prior to Allscripts, Ms. Adams held the position of Vice President, Human Resources, for Cisco. She led human resources for the Cisco sales organization on a global basis and for each of Cisco s theatres (US & Canada, Japan, Europe, Emerging, and Asia Pacific). Prior to joining Cisco in 1995, Ms. Adams served in a number of leadership roles within Nortel and also founded and operated a consulting business focused on organization and leadership development. Ms. Adams serves on the International Juvenile Diabetes Research Foundation (JDRF) Board. She previously served on the JDRF Board of Directors for the Triangle/Eastern North Carolina chapter for seven years. She currently serves on the NC Board of Directors of Communities in Schools and the Communications Committee for the Raleigh, NC Chamber of Commerce.

Ownership of Allscripts Common Stock

The following table sets forth the number of shares of Allscripts common stock beneficially owned as of September 14, 2010 by:

- our Named Executive Officers or NEOs ;
- each director;
- all directors and executive officers as a group; and
- each stockholder that we know to own beneficially more than 5% of Allscripts common stock based on information filed with the SEC.

Beneficial ownership is a technical term broadly defined by the SEC to mean more than ownership in the usual sense. In general, beneficial ownership includes any shares that the holder can vote or transfer and stock options and warrants that are exercisable currently or become exercisable within 60 days. These shares are considered to be outstanding for the purpose of calculating the percentage of outstanding Allscripts common stock owned by a particular stockholder, but are not considered to be outstanding for the purpose of calculating the percentage ownership of any other person. Percentage of ownership is based on 186,376,109 total shares of Allscripts common stock outstanding as of September 14, 2010, the record date for the annual meeting. Except as otherwise noted, the stockholders named in this table have sole voting and dispositive power for all shares shown as beneficially owned by them.

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Named Executive Officers and Directors (1)	Shares of Common Stock Beneficially Owned	Options Exercisable and Restricted Stock Units Vesting Within 60 Days	Total	Percent of Class
Glen E. Tullman	1,080,371	868,541	1,948,912	1.0%
William J. Davis	331,824	326,052	657,876	*
Lee A. Shapiro	361,155	523,475	884,630	*
Eileen McPartland	40,731		40,731	*
Jeff A. Surges	151,784	34,965	186,749	*
Dennis H. Chookaszian				*
Eugene V. Fife	250,329	150,000	400,329	*
Marcel L. Gus Gamache	26,985	83,918	110,903	*
Philip D. Green	124,580		124,580	*
Edward A. Kangas	45,616	60,000	105,616	*
John G. King	10,000		10,000	*
Michael J. Kluger	103,185	81,052	184,237	*
Philip M. Pead	189,676	540,000	729,676	*
Stephen Wilson				
All directors and executive officers as a group (18 persons)	3,125,983	3,344,044	6,470,027	3.5%

5% Stockholders	Shares of Common Stock Beneficially Owned	Percent of Class
Misys plc (2)	19,005,621	10.2%
FMR LLC (3)	16,082,327	8.6%

* Amount represents less than 1% of our common stock.

(1) Unless otherwise set forth in the following footnotes, the address of each beneficial owner is 222 Merchandise Mart Plaza, Suite 2024, Chicago, IL 60654.

(2) Based upon information contained in a Schedule 13D/A filed with the SEC on August 31, 2010, Misys has shared and dispositive power with two of its subsidiaries, Kapiti Limited and ACT Sigmex Limited with respect to 19,005,621 shares as of August 27, 2010. The address for Misys is One Kingdom Street, Paddington, London W2 6BL, UK.

(3) This information is derived from a Schedule 13G/A filed by FMR LLC on April 12, 2010. According to the Schedule 13G/A, FMR LLC had sole power to vote or direct the vote of 568,700 shares and sole power to dispose of or direct the disposition of 16,082,327 shares, and shared power to vote or direct the vote of, and shared power to dispose of or direct the disposition of, no shares. The address for FMR LLC is 82 Devonshire Street, Boston, MA 02109.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires executive officers, directors and 10% stockholders to file reports of ownership and changes of ownership of Allscripts common stock with the SEC. Based on a review of copies of these reports and amendments provided to us and written representations from executive officers and directors, we believe that, during fiscal 2010 and during the subsequent period through the date of this proxy statement, the following reports were not filed on a timely basis: Ms. McPartland one report relating to her becoming subject to Section 16(a), two reports relating to the grant or vesting of an award pursuant to Rule 16b-3(d); Mr. Tullman one report related to gifts of shares, two reports relating to the grant or vesting of an award pursuant to Rule 16b-3(d); Mr. Green one report related to the disposition of shares, one report relating to the acquisition of shares, one report relating to the grant of an award

pursuant to Rule 16b-3(d); Mr. Brian Vandenberg two reports relating to the grant or vesting of an award pursuant to Rule 16b-3(d); Mr. Surges two reports relating to the grant or vesting of an award pursuant to Rule 16b-3(d); Mr. Shapiro two reports relating to the grant or vesting of an award pursuant to Rule 16b-3(d); Mr. Davis two reports relating to the grant or vesting of an award pursuant to Rule 16b-3(d); Ms. Adams one report relating to her becoming subject to Section 16(a), two reports relating to the grant or vesting of an award pursuant to Rule 16b-3(d); Mr. Kluger one report relating to the grant of an award pursuant to Rule 16b-3(d); Mr. Gamache one report relating to the grant of an award pursuant to Rule 16b-3(d); and Mr. Wilson one report relating to him becoming subject to Section 16(a).

Executive Compensation

Compensation Discussion and Analysis

General

Philip D. Green, Edward Kangas and Michael J. Kluger are the current members of the Compensation Committee. The board of directors has determined that Messrs. Green, Kangas and Kluger are each independent as defined in Rule 4200(a)(15) of NASDAQ s listing standards. Pursuant to the Compensation Committee charter, the Compensation Committee has the sole authority to determine the compensation of the Company s Chief Executive Officer, to review and approve the compensation of the Company s other executive officers, and to review the compensation of the Company s directors and recommend changes in the directors compensation to the board of directors. The Committee also oversees the administration of the Company s incentive compensation plans, equity-based compensation plans and any material employee benefit, bonus, retirement, severance or other compensation plan. For additional information regarding the Compensation Committee and its charter, see Corporate Governance Matters Meetings and Committees of the Board of Directors Compensation Committee above.

Completion of Transactions

In connection with the consummation of the 2008 Misys Transactions, we changed our fiscal year end from December 31st to May 31st. For accounting purposes, the 2008 Misys Transactions are treated as a reverse acquisition, with Misys Healthcare deemed to be the accounting acquirer. As a result of the reverse acquisition accounting, Misys Healthcare s financial statements became our historical financial statements. Please refer to our Form 10-K for the fiscal year ended May 31, 2009 for more information. However, a portion of the executive compensation tables set forth information with regard to compensation for services rendered to legacy Allscripts Healthcare Solutions, Inc. for periods prior to the consummation of the 2008 Misys Transactions on October 10, 2008 and is derived from the historical financial statements of legacy Allscripts. In the executive compensation tables that immediately follow this Compensation Discussion and Analysis, we are presenting information both for calendar 2008, which we refer to as 2008 and is derived in part from the historical financial statements of legacy Allscripts prior to October 10, 2008, and for the period from January 1, 2009 through the end of our 2009 fiscal year on May 31, 2009, which we refer to as the Transitional 2009 Period.

The combination of Allscripts and Misys has had a significant impact on the business scope and environment in which we operate. The significant increase in the size and complexity of our business subsequent to the 2008 Misys Transactions has increased the roles and responsibilities of many of our executives. The increased business scope and responsibilities has further raised the bar for the caliber of talent that we are required to attract and retain for our success.

Executive Pay Policy

The Compensation Committee seeks to establish and implement a compensation system for the Company s executive officers that is performance-oriented and designed to meet the following objectives:

- Enable the Company to attract, motivate and retain its executive officers by providing incentives which are competitive in the executive market;

- Reward outstanding performance for an individual s direct contribution to company and business unit goals;

- Provide long-term incentive compensation through equity grants;

- Provide for compensation that is both externally competitive and internally equitable; and

- Ensure our executive officers compensation is aligned with our corporate strategies and business objectives, and the long-term interest of our stockholders.

The principal components of the compensation program for the Company s executive officers are base salary, cash payments under an annual bonus award plan and long-term incentive compensation in the form of restricted stock units, including performance-based restricted stock units. The Company also provides a 401(k) retirement savings plan with matching contributions, group health and welfare plans, group term life insurance and severance benefits upon a termination of employment under certain circumstances, including following a change of control of the Company. The Company does not maintain supplemental retirement programs or defined benefit pension plans for its executive officers because the Compensation Committee believes that the existing compensation arrangements enable the Company s executive officers to adequately plan for their retirement.

Under the direction of the Compensation Committee, the Company has entered into employment agreements with each of its Named Executive Officers, or NEOs. Based on its experience with the Company, the Compensation Committee believes that employment agreements with shorter terms and annual performance reviews promote better performance by Company executives. One component of the NEO employment agreements is the severance arrangements. Each employment agreement provides for the payment of specified severance benefits upon termination of the NEO s employment with the Company under certain circumstances. The Committee believes that it is necessary to enter into severance arrangements in order to attract and retain qualified executive officers. For a detailed discussion of the Company s employment agreements with its NEOs, see Potential Payments Upon Termination or Change of Control included in this proxy statement.

Compensation Procedures

Role of Management. The role of the Compensation Committee is to align the executive compensation program with stockholders interests and our business strategy. The Compensation Committee believes this alignment can be best achieved by consulting with our senior management because of their familiarity with our day-to-day operations. As such, management provides the Compensation Committee with valuable insights into our day-to-day operations, what kinds of rewards and incentives are effective, and recommendations for compensation decisions. In fiscal 2010, the Compensation Committee consulted with Messrs. Tullman, Shapiro and Davis and Ms. Adams in formulating compensation plans and members of that group attended Compensation Committee meetings. No executive officer participates in the Compensation Committee s deliberations over any component of his or her own compensation.

Role of Misys plc. Prior to the consummation of the 2008 Misys Transactions, and after the key business terms of the 2008 Misys Transactions had been agreed to, Misys negotiated amended and restated employment agreements with our NEOs, which set base salaries, target bonus levels and retention bonuses. The terms agreed to between Misys and our NEOs in large part determined the compensation of the NEOs in fiscal 2010. During fiscal 2010, the Compensation Committee also regularly consulted with internal management at Misys for input into compensation decisions for the Named Executive Officers. Misys and its board of directors also are responsible for the administration of the Misys Omnibus Share Plan under which Misys share and option incentive awards are granted.

Market Analysis. At the beginning of fiscal 2010, the Compensation Committee undertook a thorough review of the Company s compensation program with respect to its NEOs and certain other members of senior

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management, in particular against those offered by a group of companies that include other healthcare technology companies and general software companies, listed below (the peer group). As part of this review, the Compensation Committee retained Mercer (U.S.) Inc., an independent compensation consultant (Mercer). Mercer provides expert knowledge of marketplace trends and best practices relating to competitive pay levels. In connection with its market analysis review, Mercer presented information regarding the compensation programs at companies included in the fiscal 2010 peer group. The peer group used in fiscal 2010 differed from the peer group used in 2008 in order to include companies with revenue ranges similar to combined Allscripts-Misys. Accordingly, SXC Health Solutions Corp., IMS Health, Inc., Citrix Systems, Inc., Fair Issac Corp., Epicor Software Corp., BMC Software Inc. and Novell Inc. were added to the fiscal 2010 peer group and The Trizetto Group, Inc., Quality Systems, Inc, Wind River Systems, Inc. and Verint Systems, Inc. were removed from the fiscal 2010 peer group.

For fiscal 2010, the peer group consisted of the following companies:

Healthcare Technology Companies	Software Companies
Eclipsys Corporation	Quest Software, Inc.
SXC Health Solutions Corp.	Informatica Corporation
IMS Health Inc.	Citrix Systems, Inc.
Cerner Corporation	MicroStrategy, Inc.
	Progress Software Corporation
	Fair Issac Corp
	Lawson Software, Inc.
	Epicor Software Corp
	BMC Software Inc.
	Novell Inc.

The Compensation Committee considered the recommendation of Mercer to evaluate whether the compensation being paid by the Company is competitive with those of its peer group and set a benchmark for NEO compensation. For fiscal 2010, the Compensation Committee sought to set total direct compensation to an amount within a competitive range of the median for similarly situated officers at the peer group. However, any benchmark is not applied rigidly in order for the Compensation Committee to retain flexibility to reward superior performance or reduce compensation for unsatisfactory performance.

Committee Process. As discussed above, the Compensation Committee continually reviews both the Company s compensation philosophy and the actual compensation being paid. The Compensation Committee met, including in executive sessions without any members of management present, to discuss, evaluate and set executive officer compensation. Other than as described above, the Compensation Committee did not engage third party human resource consulting firms in connection with setting executive compensation for fiscal 2010.

Elements of Compensation

The Compensation Committee believes that the Company s compensation programs for its executive officers are competitive and appropriately designed to attract and retain key employees, reward performance and promote long-term stockholder value. The Compensation Committee plans to continue to review the compensation payable to the Company s executive officers, periodically evaluate the Company s compensation practices against competitive data and make changes to the Company s compensation structure to ensure that the programs are designed and implemented to achieve the Compensation Committee s stated goals. This section describes the various elements of our compensation program for NEOs, together with a discussion of various matters relating to those items. The principal components of compensation for our NEOs were:

- cash compensation consisting of base salary and cash bonus;
- equity compensation; and
- perquisites and other personal benefits.

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Base Salary. Base salaries are paid to the Company s executive officers to compensate them for the performance of their respective job duties and responsibilities. The Compensation Committee reviews base salaries of the Company s executive officers on an annual basis. In setting annual base salaries, the Compensation Committee takes into consideration the Company s overall financial and operating performance in the prior year, the Company-wide target for base salary increases for all employees, market and competitive salary information, changes in the scope of an executive officer s job responsibilities and other relevant factors. The Compensation Committee also reviews the executive officer s performance and the performance of the divisions, business units and departments for which he or she is responsible. For the Chief Executive Officer, the Compensation Committee evaluates the Chief Executive Officer s performance and determines the salary adjustment. For the other executive officers, the Compensation Committee receives an evaluation from the Chief Executive Officer on the executive officer s performance and a recommendation for a salary adjustment.

Based on the competitive salary information discussed above under Compensation Procedures Market Analysis, the Compensation Committee approved base salary increases for our Chief Executive Officer of $50,000, to $750,000, for fiscal 2010 and for Lee Shapiro of $125,000, to $600,000, effective June 13, 2009. With respect to Ms. McPartland, the Compensation Committee set her annualized base salary when she joined the Company in June 2009 at $600,000, pursuant to the terms of her employment agreement. In determining Ms. McPartland s base salary, the Compensation Committee considered the market analysis described above and the compensation earned by Ms. McPartland at Misys, her previous employer. None of our other NEOs received a salary increase for fiscal 2010.

Bonuses.

Annual Incentive Plan.

Stockholders approved the Allscripts-Misys Healthcare Solutions, Inc. Incentive Plan (the Incentive Plan) at the Company s October 8, 2009 Annual Meeting of Stockholders. The participants in the Incentive Plan in fiscal 2010 were the Chief Executive Officer and other eligible executive officers. The plan design enables the Compensation Committee to retain discretion to establish bonuses at levels appropriate to reflect the participants performance and other individual factors, while preserving the Company s ability to deduct the bonuses to the greatest extent permitted under Internal Revenue Code Section 162(m).

For fiscal 2010, the Compensation Committee established a bonus pool under the Incentive Plan in an amount equal to 5% of the Company s Adjusted Income from Operations in fiscal 2010, and allocated the pool among the participants to set the maximum amount that each could receive. This allows the Compensation Committee to exercise negative discretion in setting payouts under the Incentive Plan. Each Named Executive Officer s target bonus was set much lower than the bonus pool allocation for each executive. If target levels of performance were attained, the payout for fiscal 2010 was 100% of base salary for Messrs. Tullman and Shapiro and Ms. McPartland and 75% of base salary for Messrs. Davis and Surges.

Performance objectives for the Incentive Plan are developed through a systematic process. Based on a review of business plans, management, including the NEOs, develops preliminary recommendations for Compensation Committee review. The Compensation Committee reviews management s preliminary recommendations and establishes final financial targets and individual objectives. In establishing final targets, the Compensation Committee strives to ensure that the incentives provided pursuant to the Incentive Plan are consistent with the strategic goals set by the board of directors, that the goals set based on the financial budget are sufficiently ambitious so as to provide a meaningful incentive and that bonus payments, assuming target levels of budgeted performance are attained, will be consistent with the overall NEO compensation program established by the Compensation Committee.

For fiscal 2010, the minimum revenue threshold required, which means consolidated revenue of the Company determined in accordance with U. S. generally accepted accounting principles, to receive a target

Incentive Plan payout was $603.9 million, with 100% of the target bonus funded at a revenue threshold of $710.5 million and maximum funding of 150% of target for revenue equal to or exceeding $852.6 million. The actual revenues for fiscal 2010 were $709.6 million, resulting in 95% funding of the target bonus amount based on a sliding scale for achievement. Additionally, the minimum adjusted income from operations threshold required, which was calculated as income from operations determined in accordance with U.S. generally accepted accounting principles plus an add back of expenses related to the mergers with Misys and Eclipsys and certain other non-recurring expenses (Adjusted Income from Operations), to receive a target Incentive Plan payout was $120.7 million, with 100% of the target bonus funded at an Adjusted Income from Operations threshold of $142.0 million and maximum funding of 150% of target for Adjusted Income from Operations at or in excess of $170.4 million. The actual Adjusted Income from Operations for fiscal 2010 was $145.7 million, resulting in 105% funding of the target bonus amount based on a sliding scale for achievement. Considering the actual results of these two performance measures, 100% of the target bonus was funded under the Incentive Plan. The Compensation Committee then determined the individual awards under the Incentive Plan based on achievement of pre-determined Company-wide, business unit and personal objectives, including strategy, customer satisfaction, synergies relating to the 2008 Misys Transactions and operating margins. Under the Incentive Plan, the Compensation Committee also has discretion to reduce NEO awards or determine that no awards will be paid. For fiscal 2010, the awards made to each of our NEOs were equal to their respective targets, consistent with the Company s overall performance.

As a result of this process, the following payments were made to our NEOs under the Incentive Plan for fiscal 2010 (target amounts are also shown below):

Name	**Incentive Plan Target Amount**	**Incentive Plan Payment**
Glen E. Tullman	$750,000	$750,000
William J. Davis	$318,750	$318,750
Lee A. Shapiro	$600,000	$600,000
Eileen McPartland	$600,000	$600,000
Jeff A. Surges	$300,000	$300,000

<u>Retention Bonuses.</u>

As negotiated by Misys and our NEOs, as a result of the consummation of the 2008 Misys Transactions, the following retention bonus payments were made on October 31, 2009:

Key Executive	**Retention Bonus Payment**
Glen E. Tullman	$315,000
William J. Davis	$191,250
Lee A. Shapiro	$213,750
Eileen McPartland (1)	
Jeff A. Surges	$73,050

(1) Ms. McPartland commenced employment with the Company after the consummation of the 2008 Misys Transactions and, accordingly, was not eligible to receive a retention bonus award.

Stock-Based Awards. Under our Amended and Restated 1993 Stock Incentive Plan, the Compensation Committee may grant executive officers and other employees incentive and non-qualified stock options, restricted stock and other forms of stock-based awards. On January 1, 2006, Allscripts adopted Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation (FASB ASC Topic 718) (formerly Statement of Financial Accounting Standards No. 123 (Revised), Share-Based Payment). FASB ASC Topic 718 requires companies to recognize stock-based compensation expense related to all stock awards issued to employees, including options, in the statement of operations based on their fair values on the date of the grant and after applying an estimated forfeiture rate. Due to the accounting requirements mandated by the adoption of FASB ASC Topic 718, Allscripts does not expect to grant options to employees in the future, and instead, expects to use awards of restricted stock units as stock-based incentives to employees. The issuance of restricted stock units for the Company s executive officers is subject to the Compensation Committee s discretion and is generally tied to the overall financial and operating performance of the Company, the individual performance of the executive officer and the performance of the business unit, department or function for which he or she is responsible.

Time-based restricted stock unit awards generally vest 25% on each of the first four anniversary dates from the date of grant, while performance-based restricted stock units only vest if the applicable performance conditions have been satisfied. The holders of restricted stock units are not entitled to vote the underlying shares of the Company s common stock. Since October 10, 2008, restricted stock unit awards have included a dividend equivalent right entitling the award holder to cash payments on dividends, if any, declared and paid on the Company s common stock.

The Compensation Committee believes the Stock Incentive Plan and the related issuance of restricted stock units is consistent with its stated objective of establishing an executive compensation system program that aligns the long-term interest of our executive officers with those of our stockholders.

The fiscal 2010 restricted stock unit grants set forth below were made by the Compensation Committee based on a number of considerations, including an analysis of compensation arrangements at the comparable companies listed above under Market Analysis, the Company s year-over-year performance in revenue growth and earnings as compared to prior years and that of other comparable companies, the relative complexity of the business challenges faced by management and the environment in which the Company competes and the desirability of using equity grants to further align the interests of management with the stockholders of the Company.

All equity-based awards are made by the Compensation Committee, or a subcommittee thereof. The Committee does not delegate this responsibility to executive officers. The Compensation Committee has not selected a particular time each year in which equity-based awards are granted. There is no program, plan, or practice to time grants to our executives in coordination with the release of material non-public information. All restricted stock unit grants to executive officers have been in amounts approved solely by the Compensation Committee or a subcommittee of the Compensation Committee, in each case consisting solely of independent directors.

With an increased focus on performance-based compensation and strengthening the alignment of interests between our stockholders and executives, the Compensation Committee approved the granting of time-based restricted stock units and performance-based restricted stock unit awards for fiscal 2010. Based on the advice of Mercer and assuming target performance levels, half of the fiscal 2010 restricted stock unit awards were in the form of time-based restricted stock units and half were in the form of performance-based restricted stock units.

Time-Based Restricted Stock Units

During fiscal 2010, the Company granted time-based restricted stock units to each of the NEOs as set forth in the table below. All of the time-based restricted stock unit awards are subject to the Company s standard four-year vesting schedule.

	Grant Date	**Number of Underlying Shares**
Glen E. Tullman	7/31/2009	65,294
William J. Davis	7/31/2009	21,765
Lee A. Shapiro	7/31/2009	31,341
Eileen McPartland	7/31/2009	58,039
Jeff A. Surges	7/31/2009	31,922

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Performance-Based Restricted Stock Units

On July 31, 2009, Allscripts granted performance-based restricted stock units to the NEOs, in the following amounts:

	Grant Date	Target Award	Maximum Award
Glen E. Tullman	7/31/2009	65,294	81,618
William J. Davis	7/31/2009	21,765	27,206
Lee A. Shapiro	7/31/2009	31,341	39,176
Eileen McPartland	7/31/2009	58,039	72,549
Jeff A. Surges	7/31/2009	31,922	39,903

The closing price of Allscripts common stock on July 31, 2009 was $17.23 per share. To align the performance-based restricted stock unit awards with the Company s strategic plans and its growth objectives, the Compensation Committee provided that the performance-based restricted stock units would be eligible for vesting only if the Company s performance fell within a grid established by the Compensation Committee based on the Company s adjusted income from operations (which is calculated as income from operations determined in accordance with U.S. generally accepted accounting principles plus an add back of expenses related to the mergers with Misys and Eclipsys and certain other non-recurring expenses) and consolidated revenue of the Company determined in accordance with U.S. generally accepted accounting principles. The grid provided that the restricted stock units would be forfeited and cancelled by the Company if the Company s fiscal 2010 performance did not exceed 80% of both of the performance measures targets. The grid contemplated up to 125% of the award would be eligible for vesting if the Company s performance equaled or exceeded 120% of both of the performance measures targets. The table below indicates the potential awards under the grid in relation to the performance goals. For fiscal 2010, the targets for adjusted income from operations and revenue were $142.0 million and $710.5 million, respectively.

Adjusted	**120% of target**	100%	106.25%	112.5%	118.75%	125%
	110% of target	87.5%	100%	106.25%	112.5%	118.75%
Income from	**100% of target**	75%	87.5%	100%	106.25%	112.5%
	90% of target	37.5%	75%	87.5%	100%	106.25%
Operations	**80% of target**	0%	37.5%	75%	87.5%	100%
		80% of target	**90% of target**	**100% of target**	**110% of target**	**120% of target**
				Revenue		

Under the terms of the restricted stock unit award agreements, if the Company s performance resulted in any portion of the restricted stock units being eligible for vesting, then 50% of the award would vest on each of the first and second anniversaries of the grant date so long as the executive remained continuously employed by the Company. For fiscal 2010, the actual revenues were $709.6 million, resulting in 99.87% achievement of the performance goal, and the actual adjusted income from operations was $145.7 million, resulting in 102.61% achievement of the performance goal. Considering the actual results of these two performance measures, approximately 100.7% of the target awards were granted.

Perquisites

Allscripts generally does not provide its NEOs with significant perquisites and personal benefits in excess of $10,000. The total perquisites provided to each NEO are described in footnote 5 to the Fiscal 2010 Summary Compensation Table included in this proxy statement.

Severance Arrangements in Employment Agreements

Allscripts has entered into severance arrangements as a component of the employment agreements with members of our senior management team, including the NEOs. These agreements provide for payments and other benefits if the officer s employment terminates for a qualifying event or circumstance, such as being terminated without Cause or leaving employment for Constructive Discharge, as these terms are defined in the employment agreements. A termination following a Change of Control generally results in the NEOs receiving additional compensation. Additional information regarding the employment agreements, including a quantification of benefits that would have been received by our NEOs had termination occurred on May 31, 2010, is found under the heading Potential Payments upon Termination or Change of Control in this proxy statement.

The Compensation Committee believes that these severance and change of control arrangements are an important part of overall compensation for our NEOs. The Compensation Committee believes that these agreements help to secure the continued employment and dedication of our NEOs, notwithstanding any concern that they might have at such time regarding their own continued employment, prior to or following a change of control. The Compensation Committee also believes that these agreements are important as a recruitment and retention device, as many of the companies with which we compete for executive talent have similar agreements in place for their senior employees.

Stock Ownership Requirements

All of our NEOs, and certain other of our executives, are subject to minimum stock ownership and retention requirements (including stock options, restricted stock and restricted stock units). For our NEOs, these requirements are included in each NEO s employment agreement. An NEO could be terminated by the Company for Cause for failure to maintain the minimum level of ownership.

In the case of Messrs. Shapiro, Davis and Surges, they must maintain an ownership level with a fair market value equal to: (i) 100% of their respective base salaries on October 10, 2008 from October 10, 2008 through October 9, 2009; (ii) 66% of their respective base salaries on October 10, 2008 from October 10, 2009 through October 9, 2010; and (iii) 33% of their respective base salaries on October 10, 2009 from October 10, 2010 through October 9, 2011. In the case of Mr. Tullman, his minimum ownership level is measured as of the same periods noted above for Messrs. Shapiro, Davis and Surges, but with 200%, 133% and 66% as the required minimum percentages in clauses (i), (ii) and (iii) of the prior sentence, respectively. In the case of Ms. McPartland, her required minimum ownership percentages are the same as noted above for Messrs. Shapiro, Davis and Surges, but her measurement period is based on June 1, 2009, the date she commenced employment with the Company. As of May 31, 2010, each of Messrs. Tullman, Shapiro, Davis and Surges and Ms. McPartland satisfied the applicable ownership requirements.

Tax Considerations

Under Internal Revenue Code Section 162(m), a company generally may not deduct compensation in excess of $1,000,000 paid to the chief executive officer and the other three most highly compensated officers, other than the chief executive officer or the chief financial officer. Certain performance-based compensation is not included in compensation for purposes of the limit. The structure of Allscripts executive compensation program has not historically given rise to Section 162(m) concerns, although in connection with the consummation of the 2008 Misys Transactions and the resulting growth of the Company, it has become a focus. To that end, the Compensation Committee structures compensation to take advantage of the exemption under Section 162(m) to the extent practicable, while satisfying the Company s compensation policies and objectives. The Compensation Committee recognizes the desirability of preserving the deductibility of payments made to the NEOs and will continue to assess the impact of Section 162(m) on its compensation practices. However, the Compensation Committee believes that it must maintain flexibility in its approach in order to structure a program that is the most effective in attracting, motivating and retaining the Company s key executives.

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Fiscal 2011 Compensation Program

Pursuant to employment agreement amendments adopted during fiscal 2011, several important modifications were made to the executive employment arrangements, including the following:

- **Eliminated Single-Trigger Change of Control Benefits:** Where a single-trigger change of control benefit was provided, the employment agreements with the NEOs were modified to require either a failure to offer a comparable job (as defined in the amendments) or a double-trigger before the payout of any change of control benefits or the accelerated vesting of any equity awards.

- **Removed Excise Tax Gross-up Payments on Change of Control Benefits:** Where a tax gross-up payment on change of control benefits was provided, the employment agreements with the NEOs were modified to remove excise tax gross-up payments on change of control benefits.

Please see the Potential Payments upon Termination or Change of Control section in this proxy statement for further information regarding the modifications to the NEOs employment agreements.

Retention Plan.

In connection with the merger with Eclipsys, Allscripts has established the Allscripts Healthcare Solutions, Inc. Incentive Retention Plan (the Retention Plan). In connection with the development of the Retention Plan, the Compensation Committee retained Hewitt Associates (Hewitt) to advise on the design of the Retention Plan and the costs and benefits associated with the Retention Plan. The Compensation Committee also received input from Mercer (U.S.) Inc., the Misys Compensation Committee s independent compensation consultant.

The purpose of the Retention Plan is to retain certain highly qualified individuals in the employment of Allscripts, provide incentive and reward to such individuals to diligently and successfully complete the merger with Eclipsys, and to mitigate distractions to such individuals resulting from the transaction. The Retention Plan is administered by the Compensation Committee, which is authorized to select the Retention Plan s participants. There are approximately 170 employees selected to participate in the Retention Plan, divided into five participation award levels. The blue award participants are Messrs. Tullman, Shapiro and Davis. The green award participation level has seven participants, including Ms. McPartland and Mr. Surges.

The total target value of the awards is 250% and 200% of a participant s base salary (as of the close of the transaction) for awards blue and green, respectively. These awards consist of 50% cash and 50% performance-based restricted shares (Performance Shares). The cash awards vest periodically over two years beginning on the date of the closing of the merger as follows: 1/6 at each of the close of the merger and the 6, 12, 16, 20 and 24 month anniversaries of the closing of the merger. The Performance Shares vest up to 50% in each of the years following the closing of the merger based on the achievement of certain cost synergies and the booking of new integrated deals as established by the board of directors. Awards for the blue and green levels also will vest upon a termination due to death or disability, termination by Allscripts without cause or by the participant for constructive discharge. Awards not previously vested are otherwise forfeited upon termination of employment.

The following table indicates the potential dollar value of the cash and Performance Shares (valuing such Performance Shares on the date of grant) that have been awarded to the NEOs under the Retention Plan.

Executive Officers	Potential Target Award Value Subject to Vesting and Performance Criteria
Glen Tullman	$1,875,000
Lee Shapiro	$1,500,000
William Davis	$1,062,500
Eileen McPartland	$1,200,000
Jeffery Surges	$ 800,000

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Employment Agreements.

On July 31, 2010 Allscripts entered into an employment agreement with Glen E. Tullman which supersedes and replaces his existing employment agreement with Allscripts dated March 17, 2008. Pursuant to the terms of the employment agreement, Mr. Tullman will continue in the position of Chief Executive Officer of Allscripts. Mr. Tullman will report to, and his duties will be assigned by, the board of directors. The term of the employment agreement is for three years from August 24, 2010, the date of the closing of the Eclipsys merger, with automatic one-year renewals unless notice of termination by either Mr. Tullman or Allscripts is given at least 90 days prior to the expiration of the term. Mr. Tullman s annual base salary will be $750,000. His annual target bonus opportunity will be 100% of base salary. Mr. Tullman will be eligible to participate in any benefit, perquisite or equity award program generally available to Allscripts senior executive employees. Equity awards will be made in the sole discretion of the board (or a committee thereof). Please see Potential Payments Upon Termination or Change of Control for information regarding the severance benefits available under Mr. Tullman s amended and restated employment agreement.

Subsequent to fiscal 2010 year-end, Allscripts entered into amendments to employment agreements with each of Lee Shapiro, William J. Davis, Jeff Surges and Eileen McPartland. The amendments amended the severance provisions with respect to each of the NEOs. Please see Potential Payments Upon Termination or Change of Control for information regarding the severance benefits available under the amended employment agreements.

The amendment with Mr. Davis also provides for an increase in Mr. Davis annual base salary from $425,000 to $500,000 and an increase in his annual target bonus opportunity from 75% of base salary to 100% of base salary. The amendment with Mr. Shapiro updates his employment agreement to reflect his current base salary of $600,000 and current target bonus opportunity of 100% of base salary.

Compensation Committee Report

The Compensation Committee of the board of directors of Allscripts Healthcare Solutions, Inc. oversees Allscripts compensation program on behalf of the board. In fulfilling its oversight responsibilities, the Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth above.

In reliance on the review and discussions referred to above, the Compensation Committee recommended to the board that the Compensation Discussion and Analysis be included in the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 2010 and the Company s proxy statement to be filed in connection with Allscripts 2010 Annual Meeting of Stockholders.

COMPENSATION COMMITTEE

Edward Kangas, Chairman*

Philip D. Green

Michael J. Kluger

* Mr. Kangas was appointed to our board of directors in August 2010.

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Fiscal 2010 Summary Compensation Table

The following table presents the total compensation of Allscripts Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers who were serving in such capacities at the end of fiscal 2010 for fiscal 2010, the Transitional 2009 Period (as described below), calendar year 2008 and calendar year 2007. In connection with the consummation of the 2008 Misys Transactions, we changed our fiscal year end from December 31st to May 31st. The table below includes historical compensation information both for calendar 2008, which we refer to as 2008 and is derived in part from the historical financial statements of legacy Allscripts prior to October 10, 2008, and for the period from January 1, 2009 through the end of our 2009 fiscal year on May 31, 2009, which we refer to as the Transitional 2009 Period. We refer to the five individuals in the table below as Named Executive Officers or NEOs in this proxy statement.

Name and Principal Position	Year (1)	Salary ($)	Bonus ($)(2)	Stock Awards ($) (3)	Non-Equity Incentive Plan Compensation ($) (4)	All Other Compensation ($) (5)	Total ($)
Glen E. Tullman	2010	741,667	315,000	2,250,031	750,000	15,572	4,072,270
Chief Executive Officer	2009*	291,667			394,000	12,205	697,872
	2008	559,375	1,785,000	4,400,000	30,000	13,130	6,787,505
	2007	475,000				11,488	486,488
William J. Davis	2010	425,000	191,250	750,022	318,750	14,480	1,699,502
Chief Financial Officer	2009*	177,083			180,000	11,575	368,658
	2008	408,541	1,283,750	2,099,992	30,000	13,040	3,835,323
	2007	400,000				11,565	411,565
Lee A. Shapiro	2010	594,792	213,750	1,080,011	600,000	15,572	2,504,125
President	2009*	197,916			347,000	12,205	557,121
	2008	428,125	1,361,250	2,350,001	30,000	13,891	4,183,267
	2007	400,000				13,882	413,882
Eileen McPartland (6)	2010	491,667		2,000,024	600,000	56,824	3,148,515
Chief Operating Officer							
Jeff A. Surges (6)	2010	400,000	73,050	1,100,032	300,000	14,480	1,887,562
Group President of Sales							

* The amounts in the table for 2009 are for the period from January 1, 2009 through the end of our 2009 fiscal year on May 31, 2009.

(1) The Year 2009 represents the Transitional 2009 Period of January 1, 2009 through May 31, 2009.

(2) Messrs. Tullman, Davis, Shapiro and Surges received cash retention bonuses during fiscal 2010. These retention bonuses were negotiated in connection with the consummation of the 2008 Misys Transactions. In addition, during calendar year 2008, Messrs. Tullman, Davis and Shapiro were paid cash bonuses that vested upon consummation of the 2008 Misys Transactions in the amounts of $1,785,000, $1,083,750, and $1,211,250, respectively.

(3) For fiscal 2010, the amounts in this column represent awards granted under Amended and Restated 1993 Stock Incentive Plan (the Stock Plan). The amounts reported in this column assume the probable outcome of the performance conditions with respect to the performance-based restricted stock unit awards and are valued based on the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation (FASB ASC Topic 718). The grant date fair value assuming maximum performance with respect to the performance-based restricted stock units is as follows: Mr. Tullman $1,406,278; Mr. Davis $468,759; Mr. Shapiro $675,002; Ms. McPartland $1,250,019; and Mr. Surges $687,529. See Note 8 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2010 for a discussion of the relevant assumptions used in calculating these amounts pursuant to FASB ASC Topic 718 in fiscal 2010.

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(4) For Fiscal 2010, these amounts reflect payments under Allscripts-Misys Healthcare Solutions Inc. Incentive Plan (the Incentive Plan) and are based upon the attainment of pre-established performance objectives. Please see the Compensation Discussion and Analysis section of this proxy statement for more specific information regarding each NEO s potential award under the Incentive Plan.

(5) The amounts reported under All Other Compensation for fiscal 2010 include parking perquisites, 401(k) matching contributions, a housing allowance and taxable benefits for premiums paid for group life insurance as follows:

	Parking Expense Payments ($)	401(k) Matching Contribution ($)	Group Life Insurance Taxable Benefits ($)	Housing Allowance ($)	Tax Reimbursements ($)	Total ($)
Glen E. Tullman	3,840	9,800	1,932			15,572
William J. Davis	3,840	9,800	840			14,480
Lee A. Shapiro	3,840	9,800	1,932			15,572
Eileen McPartland			3,010	30,000(A)	23,814(B)	56,824
Jeff A. Surges	3,840	9,800	840			14,480

(A) The housing allowance paid to Ms. McPartland was negotiated in connection with Ms. McPartland commencing employment with the Company. The amount reported represents the actual amount paid to Ms. McPartland for expenses incurred while commuting from Ms. McPartland s residence in New Jersey and Allscripts offices in Raleigh, North Carolina.

(B) The amounts reported for Ms. McPartland represent tax gross-ups for her housing allowance.

(6) Ms. McPartland and Mr. Surges were not NEOs prior to fiscal 2010.

Fiscal 2010 Grants of Plan-Based Awards

The following table provides information regarding non-equity incentive plan awards and restricted stock unit awards granted in fiscal 2010 to the NEOs.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards						
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	Stock Awards: Number of Shares of Stock or Units (#)	Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards(5) ($)
Glen E. Tullman			$ 750,000(1)	$ 1,125,000							
	7/31/2009					65,294(2)	81,618(3)				1,125,016
	7/31/2009							65,294(4)			1,125,016
William J. Davis			$ 318,750(1)	$ 478,125							
	7/31/2009					21,765(2)	27,206(3)				375,011
	7/31/2009							21,765(4)			375,011
Lee A. Shapiro			$ 600,000(1)	$ 900,000							
	7/31/2009					31,341(2)	39,176(3)				540,005
	7/31/2009							31,341(4)			540,005
Eileen McPartland			$ 600,000(1)	$ 900,000							

	7/31/2009			58,039(2)	72,549(3)		1,000,012
	7/31/2009					58,039(4)	1,000,012
Jeff A. Surges		$ 300,000(1)	$ 450,000				
	7/31/2009			31,922(2)	39,903(3)		550,016
	7/31/2009					31,922(4)	550,016

(1) These amounts reflect the target cash incentive compensation amounts under the Incentive Plan, which is 100% of annual salary for Messrs. Tullman and Shapiro and Ms. McPartland and 75% of annual salary for Messrs. Davis and Surges. Actual payout under the Incentive Plan is based on the achievement of performance goals.

(2) This amount represents the target performance-based restricted stock units granted in fiscal 2010 under the Stock Plan. These restricted stock units vest based on the attainment of specified targets for adjusted income from operations (which is calculated as GAAP income from operations plus an add back of deal related amortization and one-time costs related to the 2008 Misys Transactions) and revenue.

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(3) This amount represents the maximum performance-based restricted stock units granted in fiscal 2010 under the Stock Plan. These restricted stock units vest based on the attainment of specified targets for adjusted income from operations (which is calculated as GAAP income from operations plus an add back of deal related amortization and one-time costs related to the 2008 Misys Transactions) and revenue.

(4) These time-based restricted stock units granted under our Stock Plan vest 25% over four years and become fully vested on July 31, 2013.

(5) The amounts shown in this column are valued based on the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. See Note 8 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2010 for a discussion of the relevant assumptions used in calculating these amounts pursuant to FASB ASC Topic 718 in fiscal 2010.

Narrative to Summary Compensation Table and Grants of Plan-Based Awards Table

Employment Agreements

Allscripts entered into amended and restated employment agreements with Messrs. Tullman, Davis, Shapiro and Surges effective upon the closing of the 2008 Misys Transactions on October 10, 2008. In connection with her appointment to the position of Chief Operating Officer, on August 7, 2009, Ms. McPartland entered into an employment agreement with the Company, effective as of June 1, 2009. In the case of each NEO other than Mr. Tullman, the term of their agreements will expire in October 2011, but Allscripts may renew each agreement for additional one-year periods. Subsequent to the end of fiscal 2010, Mr. Tullman entered into a new employment agreement with the Company, which will expire on the third anniversary of the closing of the Eclipsys merger. Please see the Compensation Discussion and Analysis and the Potential Payments Upon termination or Change of Control for a discussion of the amendments to each of the NEO s employment agreements subsequent to fiscal 2010.

Under the employment agreements, each of the NEOs were entitled to receive the following base salaries in fiscal 2010:

Name	2010 Salary
Glen E. Tullman, Chief Executive Officer	$750,000
William J. Davis, Chief Financial Officer	$425,000
Lee A. Shapiro, President	$600,000
Eileen McPartland, Chief Operating Officer	$600,000
Jeff A. Surges, Group President of Sales	$400,000

Each executive is also entitled to a performance bonus subject to the sole discretion of, and based upon criteria selected by the board of directors or a committee of the board of directors. In fiscal 2010, the target bonus for Messrs. Tullman and Shapiro and Ms. McPartland was 100% of such NEO s respective base salary and for Messrs. Davis and Surges, 75% of their respective base salary, but, in each case could, based on performance, exceed such amount.

For a description of post fiscal 2010 modifications to the terms of each NEO s employment arrangements with Allscripts, please see the Compensation Discussion and Analysis. For a description and quantification of benefits payable upon termination or a change of control as of May 31, 2010, see Potential Payments Upon Termination or Change of Control below.

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Outstanding Equity Awards at Fiscal 2010 Year-End

The following table sets forth information regarding stock options and restricted stock units of the Company, and options to acquire ordinary shares of Misys, held by each of the NEOs at May 31, 2010.

	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (1)
Glen E. Tullman	296,017		$1.70	6/24/2013				
Chief Executive Officer	155,876		$4.57	4/1/2014				
	311,753		$5.13	12/31/2014				
					314,685(2)	5,919,225	292,929(5)	957,878
					65,294(3)	1,228,180	348,087(5)	1,138,244
							65,774(6)	1,237,209
William J. Davis	79,462		$1.70	6/24/2013				
Chief Financial Officer	72,742		$4.57	4/1/2014				
	103,918		$5.13	12/31/2014				
					209,790(2)	3,946,150	195,286(5)	638,585
					21,765(3)	409,400	208,852(5)	682,946
							21,925(6)	412,409
Lee A. Shapiro	103,918		$6.40	9/27/2010				
President	147,794		$2.71	3/1/2011				
	16,957		$3.25	7/26/2011				
	106,258		$1.70	6/24/2013				
	72,742		$4.57	4/1/2014				
	155,876		$5.13	12/31/2014				
					209,790(2)	3,946,150	195,286(5)	638,585
					31,341(3)	589,524	236,202(5)	772,381
							31,572(6)	593,869
Eileen McPartland		346,132(4)	$4.69	5/1/2011 8/23/2011				

Chief Operating Officer	201,910(4)	$2.17				
			58,039(3)	1,091,714	346,132(5)	1,131,852
					201,910(5)	660,246
					58,466(6)	1,099,745
Jeff A. Surges Group President of Sales			104,895(2)	1,973,075	97,642(5)	319,289
			31,922(3)	600,453	161,611(5)	528,468
					32,157(6)	604,873

Note: Multiple awards have been aggregated where the expiration date and the exercise and/or base price of the instruments are identical.

(1) The amounts set forth in this column equal the number of restricted stock units indicated multiplied by the closing price of our common stock ($18.81) on May 28, 2010. In the case of Misys no cost option awards, the amounts set forth in this column equal the number of ordinary shares of Misys indicated multiplied by the closing price of Misys shares ($3.27) on May 28, 2010. The amounts assume all of the restricted stock units will vest based upon continued service.

(2) Represents restricted stock units granted on October 28, 2008. The restricted stock units will vest in four equal annual installments of the grant date beginning on October 28, 2009.

(3) Represents restricted stock units granted on July 31, 2009. The restricted stock units will vest in four equal annual installments of the grant date beginning on July 31, 2010.

(4) Represents option awards to purchase ordinary shares of Misys that are subject to the achievement of Misys share price performance or the achievement of Misys earnings-per-share performance measures during the performance period.

(5) The shares underlying these no cost option awards are ordinary shares of Misys and are subject to vesting based on Misys performance.

(6) Represents restricted stock units granted on July 31, 2009. The restricted stock units vest if certain performance targets relating to adjusted income from operations (which is calculated as GAAP income from operations plus an add back of deal related amortization and one-time costs related to the 2008 Misys Transactions) and revenue are obtained.

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Fiscal 2010 Options Exercises and Stock Vested

The following table sets forth: (i) the number of shares of Allscripts common stock, or as indicated below, ordinary shares of Misys acquired during fiscal 2010 upon the exercise of stock options and the value realized upon exercise and (ii) the number of shares acquired upon vesting of restricted stock or restricted stock unit awards and the value realized upon vesting.

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)(1)	Value Realized on Exercise ($)(2)	Number of Shares Acquired on Vesting (#) (1)	Value Realized on Vesting ($) (2)
Glen E. Tullman			104,896	2,077,990
William J. Davis			69,931	1,385,333
Lee A. Shapiro			69,931	1,385,333
Eileen McPartland	132,214(3)	400,586	88,609(3)	325,978
Jeff A. Surges			34,966	692,676

(1) Of the amounts shown in this column, Allscripts withheld the following shares to cover tax withholding obligations: Mr. Tullman 30,981 shares, Mr. Davis 23,741 shares, Mr. Shapiro 20,594 shares, Ms. McPartland 45,152 shares and Mr. Surges 10,297 shares.

(2) The value realized equals the fair market value of Allscripts common stock on the vesting date, multiplied by the number of shares vested.

(3) Represents ordinary shares of Misys acquired.

Potential Payments Upon Termination or Change of Control

As noted above under Executive Compensation Narrative to Summary Compensation Table and Grants of Plan-Based Awards Table Employment Agreements, we have entered into employment agreements with each of our NEOs that provide for payments in connection with such NEO s termination, whether upon a change of control or otherwise.

The estimated benefits to be provided to the NEOs under the employment agreements in each of those situations are described below, including a summary of payments that would have been required had a termination taken place on May 31, 2010, the last day of our most recent fiscal year, based upon the closing price of our common stock ($18.81) on May 28, 2010.

Payments Made upon Termination

The employment agreements provide for payments of certain benefits, as described below, upon the termination of the employment of an NEO. The NEO s rights upon a termination of his or her employment depend upon the circumstances of the termination. Central to an understanding of the rights of each NEO under the employment agreements is an understanding of the definitions of Cause and Constructive Discharge that are used in those agreements. For purposes of the employment agreements:

We have Cause to terminate an NEO for an NEO s: (i) willful or grossly negligent failure to perform duties, (ii) violation of law which is materially injurious to the operations or reputation of Allscripts, (iii) conviction of a crime involving property of Allscripts or constituting a felony or involving fraud or moral turpitude, (iv) failure to maintain certain ownership levels of Allscripts common stock or (v) material violation of a general Company policy or refusal to follow lawful directors of the board of directors.

A Constructive Discharge under the employment agreements generally means: (i) a failure of Allscripts to meet its obligations, in any material respect, under the employment agreement, including, without limitation, a reduction of or failure to pay base salary, (ii) a material diminution in or other

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substantial adverse alteration in the nature or scope of an NEO s responsibilities, or (iii) the relocation of more than fifty miles to an NEO s principal place of business.

The employment agreements require, as a precondition to the receipt of these payments, that the NEO sign a standard form of release of employment. They also include noncompete and nonsolicit provisions that would apply for one year following such NEO s termination of employment and a confidentiality provision. Additionally, under the employment agreements prior to the post fiscal 2010 amendments, in the event that any payment by us to the NEOs would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, we agreed to pay such executive an amount, net of taxes, equal to such excise tax amount.

Payment Obligations for Termination by Allscripts with Cause or upon Death or Disability or by the NEO without Constructive Discharge

If an NEO is terminated by Allscripts for Cause or as a result of the NEO s death or disability (as defined in the employment agreements), or if an NEO terminates his or her employment without Constructive Discharge, he or she is entitled to receive:

- accrued but unpaid base salary through the date of termination; and
- earned but unpaid annual cash incentive compensation in respect of the fiscal year prior to the fiscal year in which the termination occurs.

Payment Obligations for Termination by Allscripts Without Cause or due to Constructive Discharge.

If an NEO is terminated by Allscripts without Cause or an NEO terminates his or her employment for Constructive Discharge (except during the two-year period following a change of control), he or she is entitled to receive:

- accrued but unpaid base salary through the date of termination;
- earned but unpaid annual cash incentive compensation in respect of the fiscal year prior to the fiscal year in which the termination occurs (as determined and payable had there been no termination);
- one times the sum of base salary plus target performance bonus, such amounts to be paid in 12 equal monthly installments;
- continuation of health benefits for 12 months; and
- pro-rata vesting of any unvested stock option or stock awards equal to (i) the number of shares of such award that would vest on the normal vesting date multiplied by (ii) a fraction, the numerator of which is the number of days elapsed since the last regular vesting date of such award (or grant date if no vesting date has occurred), and the denominator of which is the number of days between the last regular vesting date (or grant date if no vesting date has occurred) and the normal vesting date; provided, however, that for performance-based awards, vesting shall be subject to the satisfaction of, and based on the level of performance achieved, performance conditions.

Payments Upon a Change of Control; Severance Upon Termination Following a Change of Control.

Pursuant to each NEO s employment agreement in effect in fiscal 2010, Messrs. Tullman, Davis, Shapiro and Surges would have received the following benefits upon the occurrence of a change of control:

full vesting of all unvested equity awards;

a lump sum cash payment equal to the sum of such NEO s base salary and target bonus amount;

an additional lump sum payment in cash equal to the sum of such NEO s base salary and target bonus amount, but only if Allscripts or representatives of the third party effecting the change of control do not offer the NEO a comparable job to be held after the change of control, regardless of whether the NEO remains employed by Allscripts or its successor following such change of control; and

if the NEO s employment is terminated without Cause or due to Constructive Discharge during the two-year period following the change of control, continuation of health benefits for 12 months and an additional lump sum cash payment equal to the excess of the sum of such NEO s base salary and target bonus amount less (but in no event resulting in a negative number) the amount of any payment to the NEO in connection with the lack of a comparable job offer described below.

Pursuant to Ms. McPartland s employment agreement in effect in fiscal 2010, if a change of control occurs and, prior to the change of control, the Company or representatives of the third party effecting the change of control (as applicable) do not offer Ms. McPartland a comparable job to be held after the change of control and, on or within ten days following the change of control, Ms. McPartland terminates her employment then, so long as Ms. McPartland has remained continuously employed from June 1, 2009 through the date of a change of control, Ms. McPartland would have received:

full vesting of all unvested equity awards;

a lump sum cash payment equal to the sum of such NEO s base salary and target bonus amount; and

if the NEO s employment is terminated without Cause or due to Constructive Discharge during the two-year period following the change of control, an additional lump sum cash payment equal to the excess of the sum of such NEO s base salary and target bonus amount less (but in no event resulting in a negative number) the amount of any payment to the NEO in connection with the lack of a comparable job offer described below.

A comparable job under each NEO s employment agreements means employment following a change of control (i) with substantially the same duties and responsibilities as were held by the NEO immediately prior to the change of control, (ii) within 50 miles of the location at which the NEO provides services prior to such change of control and (iii) at the same or increased base salary and target performance bonus level as were in effect prior to such change of control.

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The following table presents potential payments, as described above, to each NEO as if each NEO s employment had been terminated as of May 31, 2010. The amounts presented in the table are in addition to amounts each NEO earned or accrued prior to termination, such as an NEO s earned salary, previously vested options and RSUs and accrued vacation.

Name	Base Severance Pay (1x base salary and target bonus) ($)	Additional Severance Pay for Lack of Comparable Job ($)	Accelerated Vesting Of Equity Awards ($)	Continued Health Benefits ($) (1)	Total ($)
Glen Tullman					
Death or Disability					
By Allscripts for Cause or Executive without Constructive Discharge					
By Allscripts without Cause or by Executive for Constructive Discharge	1,500,000		1,922,338	2,083	3,424,421
Change of Control (no termination and comparable job)	1,500,000		7,147,405		8,647,405
Change of Control (no termination and no comparable job)	1,500,000	1,500,000	7,147,405		10,147,405
Change of Control with Termination	1,500,000	1,500,000	8,384,614	2,083	11,386,697
William J. Davis					
Death or Disability					
By Allscripts for Cause or Executive without Constructive Discharge					
By Allscripts without Cause or by Executive for Constructive Discharge	743,750		1,024,438	2,851	1,771,039
Change of Control (no termination and comparable job)	743,750		4,355,550		5,099,300
Change of Control (no termination and no comparable job)	743,750	743,750	4,355,550		5,843,050
Change of Control with Termination	743,750	743,750	4,767,959	2,851	6,258,310
Lee Shapiro					
Death or Disability					
By Allscripts for Cause or Executive without Constructive Discharge					
By Allscripts without Cause or by Executive for Constructive Discharge	1,200,000		1,137,573	3,751	2,341,324
Change of Control (no termination and comparable job)	1,200,000		4,535,674		5,735,674
Change of Control (no termination and no comparable job)	1,200,000	1,200,000	4,535,674		6,935,674
Change of Control with Termination	1,200,000	1,200,000	5,129,543	3,751	7,533,294

Name	Base Severance Pay (1x base salary and target bonus) ($)	Additional Severance Pay for Lack of Comparable Job ($)	Accelerated Vesting Of Equity Awards ($)	Continued Health Benefits ($) (1)	Total ($)
Eileen McPartland					
Death or Disability					
By Allscripts for Cause or Executive without Constructive Discharge					
By Allscripts without Cause or by Executive for Constructive Discharge	1,200,000		685,668	1,988	1,887,656
Change of Control (no termination and comparable job)					
Change of Control (no termination and no comparable job)	1,200,000		1,091,714		2,291,714
Change of Control with Termination	1,200,000		2,191,459		3,391,459
Jeff A. Surges					
Death or Disability					
By Allscripts for Cause or Executive without Constructive Discharge					
By Allscripts without Cause or by Executive for Constructive Discharge	700,000		760,781	2,851	1,463,632
Change of Control (no termination and comparable job)	700,000		2,573,528		3,273,528
Change of Control (no termination and no comparable job)	700,000	700,000	2,573,528		3,973,528
Change of Control with Termination	700,000	700,000	3,178,401	2,851	4,581,252

Post Fiscal 2010 Changes to NEO Employment Agreements

Subsequent to fiscal 2010 year end, the Company entered into a new employment agreement with Mr. Tullman and amended the terms of the employment agreements with Messrs. Shapiro, Davis and Surges and Ms. McPartland. Below is a brief summary of the amendments to the severance provisions included in each of the NEO s employment agreements.

Glen E. Tullman

Mr. Tullman s amended and restated employment agreement modified the terms of Mr. Tullman s employment relationship with the Company by, among other modifications, eliminating: (1) Mr. Tullman s right to receive a gross up payment for any excise taxes imposed under Internal Revenue Code Sections 280G and 4999; and (2) single-trigger payments to Mr. Tullman and full equity award vesting upon the occurrence of a change of control. Under the terms of Mr. Tullman s amended employment agreement, upon a termination by Allscripts without Cause or by Mr. Tullman for Constructive Discharge (as such terms are defined in the employment agreement), Mr. Tullman will receive 12 months of continued base salary plus target bonus, 12 months of continued health and dental coverage and, with respect to outstanding equity awards, pro rata vesting of the current vesting tranche plus one additional year s vesting. If a change of control (as defined in the employment agreement) occurs and prior to such event Mr. Tullman is not offered a comparable job (as defined in the employment agreement) by Allscripts (or its successor), then Mr. Tullman will receive a lump sum payment equal to two times the value of his annual base salary plus target bonus and full vesting of outstanding

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equity awards. If a termination by Allscripts without Cause or by Mr. Tullman for Constructive Discharge occurs within two years of a change of control or within 180 days before a change of control and in connection with such event, Mr. Tullman will receive a lump sum payment equal to two times the value of his annual base salary plus target bonus (reduced by any payment made to him because he was not offered a comparable job), 12 months of continued health and dental coverage and full vesting of outstanding equity awards. Mr. Tullman is subject to noncompetition and nonsolicitation of employees covenants during his employment and for one year thereafter, as well as confidentiality restrictions and Allscripts stock ownership requirements.

Amendments to Executive Employment Agreements

The amendments with Messrs. Shapiro, Davis and Surges modified the employment agreements of each executive by eliminating: (1) the executive s right to receive a gross up payment for any excise taxes imposed under Internal Revenue Code Sections 280G and 4999; and (2) single-trigger payments to the executive and full equity award vesting upon the occurrence of a change of control. The amendments also provide that, if a change of control occurs and prior to such event the executive is not offered a comparable job (as defined in the amendment) by Allscripts (or its successor), the executive will receive a lump sum payment equal to two times the value of his annual base salary plus target bonus and full vesting of outstanding equity awards. Prior to the amendments, the executive would have received a lump sum payment equal to the value of his annual base salary plus target bonus (but would have been fully vested in his equity awards due to the single-trigger vesting). Moreover, the amendments provide that if a termination by Allscripts without Cause or by the executive for Constructive Discharge occurs within two years after a change of control or, in the case of Messrs. Shapiro s and Davis amendments, within 180 days before a change of control and in connection with such event, the executive will receive a lump sum payment equal to two times the value of his annual base salary plus target bonus (reduced by any payment made to him due to no comparable job as described above) and full vesting of outstanding equity awards. Prior to the amendments, the executive would have received a lump sum payment equal to the value of his annual base salary plus target bonus (reduced by any payment made to him due to no comparable job). In addition, in connection with a termination by Allscripts without Cause or by the executive for Constructive Discharge, the amendments provide the executive will receive, with respect to outstanding equity awards, pro rata vesting of the current vesting tranche plus one additional year s vesting.

The amendment with Ms. McPartland eliminates her right to receive a gross up payment for any excise taxes imposed under Internal Revenue Code Sections 280G and 4999. The amendment also provides that upon a termination by Allscripts without Cause or by Ms. McPartland for Constructive Discharge, Ms. McPartland will receive, with respect to outstanding equity awards, pro rata vesting of the current vesting tranche plus one additional year s vesting. In the event of a termination by Allscripts without Cause or by Ms. McPartland for Constructive Discharge within the two years following a Change of Control, the amendment provides for Ms. McPartland to fully vest in all unvested equity awards.

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Equity Compensation Plan Information

The following table provides information as of May 31, 2010 about Allscripts common stock that may be issued upon the exercise of options and rights under all of our existing equity compensation plans, including our Amended and Restated 1993 Stock Incentive Plan and our 2001 Non-statutory Stock Option Plan. Stockholders did not approve the 2001 Non-statutory Stock Option Plan, which is described below.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in columns (a) and (b)) (c)
Equity compensation plans approved by security holders	5,842,998	$3.79	5,078,549
Equity compensation plans not approved by security holders	919,044	$2.46	104,501
Total (1)	6,762,042	$3.41	5,183,050

(1) Excludes 1,919 shares subject to options outstanding pursuant to the ChannelHealth Incorporated 1999 Stock Option Plan, which we assumed in connection with our 2001 acquisition of ChannelHealth Incorporated (the ChannelHealth Options). The ChannelHealth Options have a weighted-average exercise price of $13.29 per share.

2001 Non-statutory Stock Option Plan

The board originally adopted the 2001 Non-statutory Stock Option Plan (the 2001 Plan) on January 31, 2001 and has amended the Plan from time to time. The 2001 Plan was not approved by our stockholders. The 2001 Plan will terminate on January 31, 2011. Currently, the board of directors may amend or terminate the 2001 Plan at any time, subject to NASDAQ stockholder approval requirements. Under the 2001 Plan, the Compensation Committee may grant stock options to key individuals performing services for us, including employees (other than officers or directors), consultants and independent contractors.

Since its inception, 4,500,000 shares of common stock have been reserved for issuance under the 2001 Plan. At May 31, 2010, there were 919,044 shares of common stock reserved for issuance upon exercise of options and 104,501 shares available for future issuance under the 2001 Plan. The number of shares underlying options made to any one participant in a calendar year may not exceed 1,000,000 shares. The number of shares that can be issued and the number of shares subject to outstanding options may be adjusted in the event of a stock split, stock dividend, recapitalization or other similar event affecting the number of shares of our outstanding common stock.

The Compensation Committee administers the 2001 Plan. Subject to the specific provisions of the 2001 Plan, the Compensation Committee determines award eligibility, timing, amount and terms of the options. The Compensation Committee also interprets the 2001 Plan, establishes rules and regulations under the 2001 Plan and makes all other determinations necessary or advisable for the 2001 Plan s administration. Options under the 2001 Plan must be nonqualified stock options. The Compensation Committee may specify any period of time following the date of grant during which options are exercisable, so long as the exercise period is not more than ten years. Upon exercise, the option holder may pay the exercise price in such form as the Compensation Committee will provide. Unless otherwise permitted by the Internal Revenue Code and Rule 16b-3 under the Securities Exchange Act of 1934 and approved in advance by the Compensation Committee, an option under the 2001 Plan may not be sold, assigned or otherwise transferred during its holder s lifetime.

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Certain Relationships and Related Party Transactions

We or one of our subsidiaries may occasionally enter into transactions with certain related persons. Related persons include our executive officers, directors, 5% or more beneficial owners of our common stock, immediate family members of these persons and entities in which one of these persons has a direct or indirect material interest. We refer to transactions with these related persons as related party transactions. In accordance with our written policy, the Audit Committee is responsible for the review and approval of each related party transaction with Misys and its subsidiaries and each other related party transaction exceeding $120,000. The Audit Committee considers all relevant factors when determining whether to approve a related party transaction including, without limitation, whether the terms of the proposed transaction are at least as favorable to us as those that might be achieved with an unaffiliated third party. Among other relevant factors, the Audit Committee considers the following:

- the size of the transaction and the amount of consideration payable to a related person;
- the nature of the interest of the applicable executive officer, director or 5% stockholder in the transaction;
- whether the transaction may involve a conflict of interest;
- whether the transaction involves the provision of goods or services to us that are available from unaffiliated third parties; and
- whether the proposed transaction is on terms and made under circumstances that are at least as favorable to us as would be available in comparable transactions with or involving unaffiliated third parties.

All related party transactions below were either entered into before the counterparty became a related party or have been approved by the Audit Committee in conjunction with our policy described above.

Framework Agreement

On June 9, 2010, Allscripts entered into a Framework Agreement (the Framework Agreement) with Misys and Eclipsys, solely as a third party beneficiary of certain provisions of the Framework Agreement. Pursuant to the Framework Agreement, Allscripts and Misys agreed, among other things and subject to certain conditions, to reduce Misys existing indirect ownership interest in Allscripts. As of June 8, 2010, Misys held indirectly 79.8 million shares of Allscripts common stock, representing approximately 54.5% of the aggregate voting power of Allscripts capital stock. As of September 14, 2010, Misys held indirectly approximately 19 million shares of Allscripts common stock, representing approximately 10.2% of the aggregate voting power of Allscripts capital stock.

Misys and Allscripts consummated the following transactions pursuant to the terms of the Framework Agreement:

- 100% of the issued and outstanding shares of an indirect subsidiary of Misys, which held 61.3 million shares of Allscripts common stock, was transferred to Allscripts in exchange for 61.3 million newly issued shares of Allscripts common stock (such shares being referred to as the Exchange Shares and the transaction described in this bullet being referred to as the Exchange);
- Allscripts repurchased from Misys 24.4 million Exchange Shares at an aggregate purchase price of $577.4 million (the Share Repurchase), which included a payment of a premium of $117.4 million in connection with the sale by Misys of its controlling interest in Allscripts (based on the volume weighted average price of Allscripts common stock for the ten trading days immediately prior to the signing of the Framework Agreement);

Misys sold additional shares of Allscripts common stock in an underwritten secondary public offering (the Secondary Offering); and

Misys required that Allscripts repurchase from Misys or from one or more of its indirect subsidiaries approximately 5.3 million additional shares of Allscripts common stock at an aggregate purchase price of $101.6 million.

The Exchange, Share Repurchase and Secondary Offering are referred to as the Coniston Transactions.

Relationship Agreement

In connection with the entry into the 2008 merger agreement with Misys, Allscripts and Misys entered into a Relationship Agreement dated as of March 17, 2009, as amended (the Relationship Agreement). The Relationship Agreement set forth the agreement between Misys and Allscripts with respect to certain governance and other matters, including the composition of Allscripts board of directors, a voting agreement from Misys and a standstill agreement that Misys would not acquire more than 60 percent of the fully-diluted number of shares of Allscripts common stock. Pursuant to the Relationship Agreement, Misys agreed to cause all shares of our common stock held by it or any of its subsidiaries to be both represented at each meeting where directors are to be elected and voted in favor of the election of all of the director nominees nominated.

Pursuant to the Framework Agreement, on August 20, 2010, Allscripts and Misys entered into an Amended and Restated Relationship Agreement (the Amended and Restated Relationship Agreement), which amends and restates the terms of the Relationship Agreement. The Amended and Restated Relationship Agreement reduces the number of Allscripts directors that Misys has a right to nominate from six to two directors and provides that such number will be permanently reduced to one director if Misys owns less than 15.5 million shares of Allscripts common stock. The Amended and Restated Relationship Agreement further provides that such right will be permanently eliminated if Misys owns less than 5.0% of the then outstanding shares of Allscripts common stock or takes certain actions specified in the standstill provision referred to in the paragraph below.

The Amended and Restated Relationship Agreement also contains a customary standstill provision, which restricts Misys ability to acquire Allscripts securities for a period of five years after the closing of the Coniston Transactions. In addition, for a period of eighteen months after the closing of the Coniston Transactions, Misys is obligated, subject to certain exceptions, to not deploy, sell, license or market any electronic medical health record or physician practice management software, related applications or solutions in any country in the world where Allscripts is conducting such operations on the date of the Framework Agreement, or utilize the name Misys or any trade name, trademark, brand name, domain name or logo containing or associated with the name Misys in connection with any health information technology solutions.

Bank Guarantees

Pursuant to the Framework Agreement, Misys has obtained (i) a bank guarantee issued in favor of Allscripts on August 17, 2010 and delivered on August 20, 2010 by The Royal Bank of Scotland plc (RBS) in an amount of $168 million to support Misys obligation to indemnify Allscripts and its affiliates from, among other taxes, taxes imposed on Coniston, Inc., a Delaware corporation acquired by Allscripts in connection with the Coniston Transactions, as a result of the Coniston Transactions and certain related restructuring transactions and (ii) a bank guarantee issued in favor of Allscripts on August 17, 2010 and delivered on August 20, 2010 by RBS in an amount of $45 million to support Misys obligation to indemnify and hold harmless Allscripts and its affiliates from taxes imposed on Coniston, Inc. for periods ending on and prior to the closing date of the Coniston Transactions.

Registration Rights Agreement

On June 9, 2010, Allscripts entered into a registration rights agreement with Misys which provides that, for so long as Misys holds at least 5% of the then outstanding number of shares of Allscripts common stock, Misys has the right to require Allscripts on not more than three occasions to file a registration statement under the Securities Act of 1933, as amended, registering the sale of all or a portion of the shares of Allscripts common stock owned by Misys that are not otherwise freely tradable. Allscripts has the right to defer the filing of such registration statement if doing so would impede any material transaction involving Allscripts, adversely affect any financing contemplated by Allscripts or require disclosure of any material non-public information that, if disclosed at such time, would be harmful to the interests of Allscripts or its stockholders. For a period of three years after the date of the Registration Rights Agreement, Misys may participate in any registration statement proposed to be filed by Allscripts, subject to restrictions if Misys participation would adversely affect Allscripts registration. Misys will be subject to a customary lock-up in connection with any equity offering by Allscripts unless the underwriters notify Misys that less than 80% of Misys shares requested to be included in the offering can actually be included in such offering, and Misys decides not to participate in the offering.

Allscripts agreed to pay all reasonable expenses incurred in connection with a demand or other registration, other than expenses of counsel for Misys, any underwriting discounts or commissions, and also agreed to indemnify Misys from losses incurred as a result of material misstatements or omissions in such registration statement.

Shared Services Agreement

Allscripts and Misys entered into a Shared Services Agreement dated as of March 1, 2009 as amended on June 9, 2010 (the Shared Services Agreement). The Shared Services Agreement expired in accordance with its terms on August 20, 2010. The Services Agreement was approved by the Audit Committee. The services provided to Allscripts included: (1) human resource functions such as administration, selection of benefit plans and designing employee survey and training programs; (2) management services; (3) procurement services such as travel arrangements, disaster recovery and vendor management; (4) research and development services such as software development; (5) access to information technology, telephony, facilities and other related services at Misys customer support center located in Manila, The Philippines; and (6) information system services such as planning, support and database administration. During fiscal 2010, Allscripts provided Misys with certain tax, facility space and payroll processing services. During fiscal 2010, Allscripts incurred $14.4 million in expenses for services provided by Misys under the Shared Services Agreement.

Transition Services Agreement

Pursuant to the Framework Agreement, on August 20, 2010, Allscripts and Misys entered into a Transition Services Agreement (the Transition Services Agreement) pursuant to which each party will continue to provide to the other certain services and personnel to support the other s business, which services were previously provided under the Shared Services Agreement. The services that Misys agreed to provide Allscripts under the Transition Services Agreement include research and development services, customer support services and information systems services while Allscripts agreed to provide Misys financial services and tax services.

Stock Repurchase Agreement

On February 10, 2009, Allscripts entered into a Stock Repurchase Agreement (the Repurchase Agreement), with Misys, Misys Patriot Ltd. (Misys UK Holdings), and Misys Patriot US Holdings LLC (Misys US Holdings and collectively with Misys and Misys UK Holdings, Misys). Pursuant to the Repurchase Agreement, and during the two-year term of Allscripts previously announced open market purchase program, Allscripts had agreed to purchase from Misys, and Misys had agreed to sell to Allscripts, the number of shares of Allscripts common stock needed to keep Misys ownership percentage in Allscripts unaffected by the open market repurchases made by Allscripts. The repurchase price for any shares acquired pursuant to the Repurchase Agreement were the weighted average purchase price paid by Allscripts for all other shares acquired in the open market program. During the year ended May 31, 2010, Allscripts did not repurchase any shares from Misys pursuant to the Repurchase Agreement.

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In connection with the closing of the Coniston Transactions, the Repurchase Agreement was terminated. No early termination penalties were incurred by Allscripts in connection with the termination of the Repurchase Agreement.

License Agreement

On October 10, 2008, Misys Open Source Solutions LLC, a subsidiary of Misys, licensed to Misys Healthcare on a nonexclusive, royalty-free, worldwide basis the proprietary components of the Misys Connect software owned by Misys open source division for use in healthcare information technology products and services (the Proprietary License). Under the terms of the Proprietary License, Misys Healthcare, Allscripts and Allscripts wholly-owned subsidiaries may license use of the proprietary Misys Connect software to their customers and are responsible for maintaining and supporting their customers use of the licensed Misys Connect software. The Proprietary License was entered into before Allscripts and Misys became related parties.

Misys Open Source Solutions Agreements

Allscripts and Misys Open Source Solutions, LLC (MOSS), a wholly-owned subsidiary of Misys, entered into a Consulting Agreement effective as of May 31, 2009. On August 17, 2010, Allscripts and MOSS entered into a Statement of Work that provides for MOSS to provide implementation services for up to 400 physicians related to the connectivity and integration of their e-prescribing and practice management systems into the Connecticut Health Information Exchange. Payment will consist of $800 per implemented physician, up to a total of $320,000. The work contemplated by this Statement of Work is anticipated to be completed by July 1, 2011.

Allscripts also entered into a Master Teaming Agreement for Proposals with MOSS, effective May 31, 2009. The Master Teaming Agreement was entered into for the purpose of establishing standards and conditions pursuant to which Allscripts and MOSS would act as a team for the purpose of preparing and submitting proposals to provide products and/or services to a customer where it is to their mutual benefit to do so. In the event that MOSS and Allscripts collaborate in preparing and submitting a proposal, an individualized teaming statement will be entered into between MOSS and Allscripts setting forth the specific terms and responsibilities of the parties.

Lease Agreement and Cost-Sharing Arrangement with BG Jet Corp.

Effective March 1, 2007, Eclipsys entered into a Lease Agreement and a Cost Sharing Agreement, each with BG Jet Corp., and an Assignment and Consent among Eclipsys, BG Jet Corp., NetJets Sales, Inc., NetJets Services, Inc. and NetJets Aviation, Inc. BG Jet Corp. is 50% owned by Mr. Eugene Fife, one of our directors who joined our board on August 24, 2010 in connection with the merger with Eclipsys. The NetJets entities are affiliated companies that in the aggregate provide a fractional aircraft interest and related services to BG Jet Corp. Eclipsys arrangement with BG Jet Corp. had an initial term of 11 months and was renewed for subsequent one year terms in February 2008, 2009 and 2010. Either Eclipsys or BG Jet Corp. may terminate the arrangement, without penalty, if Mr. Fife s service on our board ceases, or as a result of a change in control of Eclipsys, or upon loss of use of the aircraft that is subject to the fractional interest, or upon transfer of the fractional interest in whole or part by BG Jet Corp.

BG Jet Corp. has agreed to make a portion of its fractional interest available to us. Pursuant to these agreements, (i) BG Jet Corp. leases its fractional interest to us from time to time to accommodate our flight needs, (ii) the NetJets entities provide directly to us the aircraft management services provided to BG Jet Corp. as part of the fractional ownership program, and (iii) Eclipsys and BG Jet Corp. divide the fixed monthly costs and hourly flight time charges according to each party s respective usage of the fractional interest. This arrangement is structured to comply with applicable rules of the Federal Aviation Administration.

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Our costs in connection with this arrangement include (i) fixed lease payments to BG Jet Corp. of $100 per month, (ii) payments to NetJets of our ratable share, based upon our usage, of the fixed monthly costs that BG Jet Corp. is obligated to pay to NetJets, and (iii) payments to NetJets for actual flight time used by Eclipsys, plus federal excise taxes, fuel surcharges, and other miscellaneous items such as landing fees. The monthly management fee and hourly flight costs are the actual costs to BG Jet Corp. pursuant to its arrangements with NetJets, so the transaction is structured as a pass-through of BG Jet Corp. s costs and not to profit BG Jet Corp. In addition, we do not make any payment to BG Jet Corp. in respect of BG Jet Corp. s capital investment in its fractional interest.

During the fiscal year ended December 31, 2009, Eclipsys used 12.8 hours of the fractional interest. The amount that can be considered to benefit Mr. Fife and therefore represents his interest in the transaction is approximately $14,400, consisting of 50% (commensurate with his 50% interest in BG Jet Corp.) of $1,200 in monthly rentals paid to BG Jet Corp. and approximately $27,500 payable to NetJets for fixed monthly maintenance costs that would otherwise be paid by BG Jet Corp. The balance, consisting of incremental hourly flight costs, would not benefit Mr. Fife. In addition to a nominal increase in the fixed monthly costs that BG Jet Corp. paid to NetJets in 2009, if we use more than 12.8 hours in 2010, the benefit to Mr. Fife would increase ratably consistent with the foregoing.

This related person transaction was reviewed and approved by the Eclipsys Audit Committee and the Eclipsys Board of Directors. The Eclipsys Audit Committee and the Eclipsys Board of Directors considered the business need for periodic access to private aircraft and alternative sources of access to private aircraft, and concluded that the transaction with BG Jet Corp. was beneficial to Eclipsys and on terms equal to or better than those available from unrelated third-party providers of private aircraft services. This arrangement will also be reviewed and, if continued, approved by the Allscripts Audit Committee.

Other

Warren Tullman, the brother of our Chief Executive Officer, Glen E. Tullman, is employed as Director, Market Segment. During fiscal 2010, Mr. Warren Tullman received compensation including a base salary of $140,000 per year, commission payments totaling $26,200, and was granted 1,161 restricted stock units.

Roy Surges Jr., the brother of Jeff Surges, our Group President of Sales, is employed as Enterprise Sales Executive HSG at Allscripts. During fiscal 2010, Mr. Roy Surges received compensation including a base salary of $107,500 per year, commission payments totaling $139,900, and was granted 581 restricted stock units.

AUDIT COMMITTEE REPORT

The Audit Committee is comprised of three directors, each of whom is independent, as defined in NASDAQ s listing standards and SEC regulations. The Audit Committee operates under a charter adopted by the board and consistent with NASDAQ and SEC requirements.

Management is responsible for Allscripts financial reporting process, including its systems of internal and disclosure controls, and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Allscripts independent registered public accounting firm, appointed by the Audit Committee, are responsible for auditing those financial statements.

The Audit Committee of Allscripts held 28 meetings during fiscal 2010. During the meetings, discussions were had with management and PricewaterhouseCoopers LLP, Allscripts independent registered public accounting firm, regarding matters required by Statement on Auditing Standards No. 61 (Communications with Audit Committees), Statement on Auditing Standards No. 99 (Consideration of Fraud in a Financial Statement Audit) and SEC rules regarding auditor independence discussed in Final SEC Releases Nos. 33-8183 and

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33-8183a. Discussions were also held with PricewaterhouseCoopers LLP regarding its independence from Allscripts. The Committee also received from PricewaterhouseCoopers LLP written disclosures and the letter regarding its independence required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant s communications with the audit committee concerning independence.

Throughout fiscal 2010, management completed documentation, testing and evaluation of Allscripts internal control over financial reporting pursuant to the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. At each quarterly meeting, management provided updates to the Audit Committee regarding progress made to complete management s assessment of its internal control over financial reporting. As of July 27, 2010, management concluded that the internal control over financial reporting was effective at May 31, 2010. Management s assessment and PricewaterhouseCoopers LLP s audit of the effectiveness of internal control over financial reporting were included in Allscripts Annual Report on Form 10-K for the fiscal year ended May 31, 2010, under Item 9A, Controls and Procedures. The Audit Committee continues to oversee Allscripts efforts related to its internal control over financial reporting and management s preparations for the evaluation in fiscal 2011.

During its meetings, the Audit Committee reviewed and discussed the unaudited quarterly and audited annual financial statements with management and PricewaterhouseCoopers LLP. Based on the foregoing, the Audit Committee recommended to the board that the audited financial statements be included in Allscripts Annual Report on Form 10-K for the fiscal year ended May 31, 2010, filed with the Securities and Exchange Commission.

Audit Committee

Marcel L. Gus Gamache, Chairman

Edward Kangas *

Michael J. Kluger

* Mr. Kangas was appointed to our board of directors in August 2010.

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PROPOSAL 2 APPROVAL OF THE AMENDMENT TO THE ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC. EMPLOYEE STOCK PURCHASE PLAN

General

The Allscripts-Misys Healthcare Solutions, Inc. Employee Stock Purchase Plan (the ESPP) was originally adopted by the board of directors on April 4, 2006. On January 6, 2010, the board of directors approved an amendment to the ESPP, subject to stockholder approval at the Annual Meeting of Stockholders, to, among other items, increase the number of shares available under the ESPP. At the Annual Meeting of Stockholders, stockholders will be requested to approve an amendment to the ESPP (the Amendment), which would, among other items, increase by 250,000 the number of shares of common stock available for issuance under the ESPP.

The purpose of the ESPP is to provide employees of Allscripts and its subsidiaries added incentive to promote the best interests of Allscripts by permitting eligible employees to purchase shares of our common stock through payroll deductions. The ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended.

The following summary of the Amendment and the ESPP is qualified in its entirety by reference to the complete text of the Amendment and the ESPP. Copies of the Amendment and the ESPP, as amended and restated, are attached to this proxy statement as *Appendix A* and *B,* respectively.

Key Provisions

Plan Term: 10 years

Eligible Participants: Only employees of Allscripts and participating subsidiaries will be eligible to be granted options to purchase shares of common stock under the ESPP, subject to certain restrictions as stated in the ESPP.

Shares Authorized: Subject to adjustment upon changes in capitalization of Allscripts as provided in the ESPP, the maximum number of shares which will be made available for sale under the ESPP will be 500,000 shares. Such 500,000 represents less than 1% of the common stock outstanding as of September 14, 2010. As of September 14, 2010, the closing price of our common stock was $17.52 per share.

Purchase Price of Shares: The purchase price will be 95% of the fair market value of a share on the last business day of the offering period.

Administration of the Plan

The ESPP will be administered by the Compensation Committee. The Compensation Committee will have full power and authority to interpret and administer the ESPP, to establish rules and regulations relating to the ESPP and to make all other determinations it deems appropriate for the proper administration of the ESPP.

Shares Reserved under the Plan

The number of shares of common stock available for purchase under the ESPP will not exceed 500,000, subject to adjustment by the Compensation Committee upon changes in capitalization. The Company will satisfy the exercise of all participant options under the ESPP through the Company s purchase of shares in the open market.

Adjustments

In the event of a change in capitalization of Allscripts, the maximum number of shares of common stock available for purchase under the ESPP, the purchase price and the number of shares of common stock covered by

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each outstanding option under the ESPP will be appropriately adjusted by the board of directors or the Compensation Committee, whose determination will be final, binding and conclusive.

Eligible Participants

All employees who are regularly scheduled to work at least 20 hours per week for more than five months per calendar year will be eligible to participate in the ESPP, except for certain limitations imposed by Section 423(b) of the Code. Under the Code, no employee is permitted to purchase any shares in the ESPP if such employee, immediately after such purchase, owns shares possessing 5% or more of the total combined voting power of all classes of stock of Allscripts. In addition, no employee may purchase any shares under the ESPP having a collective fair market value in excess of $25,000 (determined by reference to the fair market value of the shares at the beginning of the offering period) in any one calendar year. As of September 14, 2010, approximately 2,500 employees were eligible to participate in the ESPP.

Participation in the ESPP

An employee shall be eligible to participate on the first day of the first offering period that begins after such employee s first date of employment with Allscripts or a participating subsidiary. The ESPP will allow eligible employees to authorize payroll deductions of up to 20% of their base salary to be applied toward the purchase of full shares of common stock on the last day of the offering period. Offering periods under the ESPP will be approximately three (3) months in duration and will begin on each March 1, June 1, September 1, and December 1, or such other period designated by the Compensation Committee. Shares will be purchased on the last day of each offering period at a price of 95% of the fair market value of the common stock for such date as reported on NASDAQ.

Payroll Deduction Changes and Withdrawal

Except as otherwise provided by the Compensation Committee, a participant may change his or her payroll deduction percentage by properly completing and submitting an election change form to the Compensation Committee, with such change in election to be effective as of the first enrollment date following the date of filing of the election change form. A participant may also withdraw from participation in the ESPP at any time during an offering period and receive a refund of any cash amounts credited to his or her account. A participant s withdrawal from an offering period will not have any effect upon his or her ability to participate in any subsequent offering periods.

Transferability

A participant s rights under the ESPP are not transferable by the participant except by will or the laws of descent and distribution.

Termination of Employment

When a participant terminates employment for any reason, including voluntary termination, retirement or death, the cash amounts credited to such participant s account that have not been used to purchase shares will be returned to the participant or, in the case of such participant s death, to the person s designated beneficiary.

Amendments and Termination

The board of directors or the Compensation Committee may at any time and for any reason amend, modify, suspend, discontinue or terminate the ESPP without notice; provided that no participant s existing rights in respect of existing options are adversely affected thereby. To the extent necessary to comply with Section 423 of the Code (or any other applicable law, regulation or stock exchange rule), Allscripts will obtain stockholder approval in such a manner and to such a degree as required.

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New Plan Benefits

The benefits that might be received by participating employees under the ESPP cannot be determined because the benefits depend upon the degree of participation by employees and the trading price of our common stock in future offering periods.

Federal Income Tax Consequences

The following is a brief summary of certain federal income tax consequences under the ESPP, based upon the laws in effect on the date hereof. Changes to these laws could alter the tax consequences described below. This summary is general in nature and does not discuss a number of considerations that may apply in light of the circumstances of a particular participant under the ESPP. The income tax consequences under applicable state and local tax laws may not be the same as under federal income tax laws.

The ESPP is intended to be an employee stock purchase plan within the meaning of Section 423 of the Code. Under Section 423 of the Code, an eligible employee who elects to participate in the ESPP will not recognize any taxable income at the time shares of common stock are purchased for the employee under the ESPP. If an employee disposes of the common stock purchased under the ESPP within two years of the date the shares were purchased, the employee will recognize compensation taxable as ordinary income, and Allscripts will be entitled to a corresponding deduction, in an amount equal to 5% of the fair market value of the shares on the date the shares were purchased (*i.e.,* the amount of the discount). The employee s cost basis in the shares will be increased by the amount of ordinary income recognized by the employee, and the employee will recognize capital gain or loss equal to the difference between the price at which the shares are later sold (or otherwise disposed) and the cost basis for the shares, as so increased. Allscripts will not be entitled to any deduction with respect to the amount recognized by such participant as capital gain.

If an employee does not dispose of the common stock purchased under the ESPP until after the date that is two years from the date such shares are purchased, the employee will recognize compensation taxable as ordinary income in an amount equal to the lesser of (a) 5% of the fair market value of the shares on the date the shares were purchased (*i.e.,* the amount of the discount), and (b) the excess, if any, of the fair market value of the shares on the date of disposition over the purchase price. The employee s cost basis in the shares will be increased by the amount of ordinary income recognized by the employee. The portion of the gain that is in excess of the amount recognized as ordinary income, if any, is taxed as long-term capital gain. If the shares are sold (or otherwise disposed) at a price below the purchase price under the ESPP, the loss will be treated as long-term capital loss. Allscripts will not be entitled to any deduction with respect to a disposition of shares occurring under these circumstances.

The foregoing general tax discussion is intended for the information of stockholders considering how to vote with respect to this proposal and not as tax guidance to participants in the ESPP. Participants are strongly urged to consult their own tax advisors regarding the federal, state, local, foreign and other tax consequences to them of participating in the ESPP.

Vote Required and Board Recommendation

The affirmative vote of holders of a majority of the shares of common stock represented at the meeting is required to approve the amendment to the ESPP.

The Board of Directors unanimously recommends a vote FOR the approval of the amendment to the Allscripts-Misys Healthcare Solutions, Inc. Employee Stock Purchase Plan

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PROPOSAL 3 RATIFICATION OF PRICEWATERHOUSECOOPERS LLP

On August 23, 2010, the board of directors approved the change of the fiscal year end from May 31st to December 31st. Our Audit Committee has appointed PricewaterhouseCoopers LLP to be our independent registered public accounting firm for the seven month period ending December 31, 2010. PricewaterhouseCoopers LLP audited our financial statements for the period ended May 31, 2010. Although we are not required to do so, we believe that it is appropriate to request that stockholders ratify the appointment of PricewaterhouseCoopers LLP. If stockholders do not ratify the appointment, the Audit Committee will investigate the reasons for the stockholders rejection and the Audit Committee may reconsider the appointment. Representatives of PricewaterhouseCoopers LLP will be present at the annual meeting. They will have the opportunity to make a statement if they so desire and to respond to appropriate questions.

PricewaterhouseCoopers LLP audited the financial statements of Misys Healthcare Systems, LLC for its fiscal years ended May 31, 2007, 2006 and 2005 and Grant Thornton LLP audited the financial statements of legacy Allscripts for its fiscal years ended December 31, 2007, 2006 and 2005. The 2008 Misys Transactions were treated as a reverse acquisition for accounting purposes and, as such, the historical financial statements of the accounting acquirer, Misys Healthcare, have become our historical financial statements. The SEC has released guidance that, unless the same accountant reported on the most recent financial statements of both the accounting acquirer and the acquired company, a reverse acquisition results in a change of accountants. Upon the consummation of the 2008 Misys Transaction, the Audit Committee chose to (i) retain Grant Thornton LLP as Allscripts independent registered public accounting firm for the purpose of Grant Thornton LLP completing its review of Allscripts Form 10-Q for the quarterly period ended September 30, 2008 and (ii) engage PricewaterhouseCoopers LLP to be the independent registered public accounting firm for Allscripts for the fiscal year ending May 31, 2009, resulting in a change of accountants for Allscripts. Effective as of immediately after the November 10, 2008 filing of Allscripts Form 10-Q for the quarterly period ended September 30, 2008, Grant Thornton LLP was dismissed by the Audit Committee.

During Allscripts fiscal years ended December 31, 2007 and 2006, and during the subsequent interim period through October 17, 2008, we did not consult with PricewaterhouseCoopers LLP in regards to legacy Allscripts financial statements, which were audited by Grant Thornton LLP, with respect to any of (i) the application of accounting principles to a specified transaction, either completed or proposed; (ii) the type of audit opinion that was rendered on legacy Allscripts financial statements or the type of audit opinion that might be rendered on our financial statements; or (iii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K) or a reportable event of the type described in Item 304(a)(1)(v) of Regulation S-K. During the fiscal years ended May 31, 2008 and 2007, and during the transition period through October 17, 2008, Misys Healthcare did consult with PricewaterhouseCoopers LLP, as its independent registered public accounting firm, with respect to (i) the application of accounting principles to a specified transaction, either completed or proposed; and (ii) the type of audit opinion that was rendered on Misys Healthcare s financial statements or the type of audit opinion that might be rendered on Misys Healthcare s financial statements.

No report issued by Grant Thornton LLP on the financial statements of legacy Allscripts for its fiscal years ended December 31, 2007, 2006 or 2005 contained an adverse opinion or disclaimer of opinion, or qualification or modification as to uncertainty, audit scope, or accounting principles. In addition, during Allscripts fiscal years ended December 31, 2007 and 2006 and through the date on which Grant Thornton LLP was dismissed, there were no disagreements with Grant Thornton LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of Grant Thornton LLP, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report.

We provided Grant Thornton LLP with a copy of the foregoing disclosures as contained in Item 4.01 of our Current Report on Form 8-K filed with the SEC on October 17, 2008 and the amendment thereto dated

November 17, 2008, and requested that Grant Thornton LLP furnish letters addressed to the SEC stating whether it agreed with the statements made by us included in such disclosure. A copy of such letters, dated October 17, 2008 and November 17, 2008, are filed as Exhibit 16.1 to that Current Report on Form 8-K and the amendment thereto, respectively.

The Board of Directors and Audit Committee unanimously recommend a vote FOR ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the seven month period ending December 31, 2010.

Disclosure of Independent Registered Public Accounting Firm Fees

The table below sets forth the fees billed for audit, audit-related, tax and all other services (including out-of-pocket expenses incurred by PricewaterhouseCoopers LLP in connection with providing such services and billed to us) paid to PricewaterhouseCoopers LLP for the fiscal years ended May 31, 2010 and 2009. Amounts in the table for periods prior to the consummation of the 2008 Misys Transactions on October 10, 2008 reflect amounts paid by Misys Healthcare to PricewaterhouseCoopers LLP.

	Fiscal Year Ended May 31, 2010	Fiscal Year Ended May 31, 2009
Audit fees	$1,727,787	$1,643,979(1)
Audit-related fees	1,046,225	222,685(1)
Tax fees	32,650	
All other fees	97,427	2,130
Total:	$2,904,089	$1,868,794

(1) Amount updated for $358,814 and $126,000 of fees omitted from the prior year disclosure of Audit Fees and Audit-related fees, respectively.

Audit fees relate to work performed on the financial statements, as well as work that generally only the independent registered public accounting firm can reasonably be expected to provide, including comfort letters, statutory audits, and discussions surrounding the proper application of financial accounting and/or reporting standards.

Audit-related fees relate to assurance and related services that are traditionally performed by the independent registered public accounting firm, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements.

Tax fees relate to all services, except those services specifically related to the audit of the financial statements, performed by the independent registered public accounting firm s tax personnel, including tax analysis, assisting with coordination of execution of tax related activities primarily in the area of corporate development, supporting other tax related regulatory requirements, and tax compliance and reporting.

All other fees are those associated with services not captured in the other categories. All other fees for fiscal 2010 relate to services provided to assist the Company in implementing more efficient accounting processes including month-end close.

Pre-Approval of Audit and Permissible Non-Audit Services of the Independent Registered Public Accounting Firm

The Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm within the four categories identified above.

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Prior to engagement, the Audit Committee pre-approves independent registered public accountant services within each category. The fees are budgeted and the Audit Committee requires the independent registered public accounting firm and management to report actual fees versus the budgeted fees periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent registered public accounting firm for additional services not contemplated in the original pre-approval categories. In those instances, the Audit Committee requires specific pre-approval before engaging the independent registered public accounting firm.

The Audit Committee may delegate pre-approval authority to one or more of its members.

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AVAILABILITY OF PROXY MATERIALS ON THE INTERNET

In lieu of distributing a printed copy of proxy materials for the annual meeting to each of our stockholders, we are making this proxy statement and our annual report for the period ended May 31, 2010 available on the Internet to our stockholders. Each of our stockholders who, as of the date on which the notice is mailed, has not requested to receive all proxy materials from us in printed form or via email will receive a notice regarding the Internet availability of such materials, which will include instructions on how to access them, as well as how to vote online.

If you received the notice and would prefer to receive a copy of the materials for the annual meeting or future annual meetings of our stockholders via email or receive a printed copy of such materials via mail at no charge, please follow the instructions for obtaining such materials on the notice.

DELIVERY OF DOCUMENTS TO SECURITY HOLDERS SHARING AN ADDRESS

The SEC has adopted rules that permit companies to deliver a single notice regarding the availability of proxy materials on the Internet or a single copy of proxy materials to multiple stockholders sharing an address unless a company has received contrary instructions from one or more of the stockholders at that address. Upon request, we will promptly deliver a separate notice or a separate copy of proxy materials to one or more stockholders at a shared address to which a single notice or a single copy of proxy materials was delivered. Stockholders may request a separate notice or a separate copy of proxy materials by calling us at (312) 506-1230 or by mailing a request to our Secretary, Lee Shapiro, at Allscripts Healthcare Solutions, Inc., 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654. Stockholders at a shared address who receive multiple notices or multiple copies of proxy materials may request to receive a single notice or a single copy of proxy materials in the future in the same manner as described above.

FUTURE PROPOSALS

The deadline has passed for submitting a proposal to be raised at the 2010 Annual Meeting of Stockholders. Stockholder proposals requested to be included in the Company s 2011 proxy statement must be received by the Company not later than December 31, 2010. Even if a proposal is not submitted in time to be considered for inclusion in the Company s 2011 proxy statement, a proper stockholder proposal or director nomination may still be considered at the Company s 2011 Annual Meeting of Stockholders, but only if the proposal or nomination is timely received by the Company. We intend to have our annual meeting on May 20, 2011 and, as a result, we intend to mail the proxy statement to our stockholders on or about April 8, 2011. We must receive your proposal in writing on or after December 21, 2010, but no later than January 20, 2011. Any notice (for proposals other than relating to the nominations of directors described above) must contain a brief description of the business proposed to be brought before the meeting and the reasons for conducting the business at the meeting. In addition, the notice must present certain information concerning the stockholder making the proposal, who must be a stockholder of record at the time of giving the notice and be entitled to vote at the meeting.

OTHER MATTERS

At the date of this proxy statement, Allscripts management does not know of any business to be presented at the annual meeting other than the matters set forth above. No other business may be brought before the annual meeting other than the matters set forth above and those matters which may arise in connection therewith. However, if any other matter shall properly come before this annual meeting or any adjournment or postponement thereof and shall be voted upon, the proposed proxy will be deemed to confer authority to the individuals named as authorized therein to vote the shares represented by the proxy as to any matters that fall within the purposes set forth in the notice of annual meeting.

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Appendix A

AMENDMENTS TO ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC.

EMPLOYEE STOCK PURCHASE PLAN (the Plan)

1. All references in the Plan to Allscripts Healthcare Solutions, Inc. hereby are deleted and replaced with Allscripts-Misys Healthcare Solutions, Inc.

2. The definition of Compensation set forth in Section 2 of the Plan hereby is amended by adding the following at the end thereof:

and applied uniformly to all Participants with respect to the applicable offering.

3. Section 7 of the Plan hereby is amended to add the following sentence at the end thereof:

7. Grant of Option. On each Purchase Date, each Participant in an Offering Period shall be granted an Option to purchase on such Purchase Date a number of full Shares determined by dividing such Participant s payroll deductions accumulated prior to such Purchase Date and retained in the Participant s Purchase Account as of the Purchase Date by the applicable Purchase Price.

4. The definition of Offering Period set forth in Section 2 of the Plan hereby is amended and restated to read in its entirety as follows:

Offering Period means every three (3) month period beginning each March 1, June 1, September 1 and December 1 or such other period designated by the Committee.

5. Section 8 of the Plan hereby is amended by inserting the following sentence immediately following the second sentence thereof:

All other payroll deductions accumulated in a Participant s Purchase Account and not used to purchase Shares on an Exercise Date shall be distributed to the Participant.

6. Section 8 of the Plan hereby is amended to add the following sentence at the end thereof:

The Company shall satisfy the exercise of all Participants Options for the purchase of Shares through the Company s purchase of Shares from the open market and not through the issuance of new Shares.

7. Section 9 of the Plan hereby is amended and restated to read in its entirety as follows:

9. Approval by Shareholders. The amendment to the Plan to increase the number of Shares available from Two Hundred Fifty Thousand (250,000) Shares to Five Hundred Thousand (500,000) Shares shall be submitted to the shareholders of the Company for approval within twelve (12) months after the date such amendment is adopted by the Board. Such shareholder approval may be obtained at a duly held shareholders meeting by the affirmative vote of the holders of a majority of the Shares of the Company present at the meeting or represented and entitled to vote thereon. If such shareholder approval is not obtained, then the Plan shall terminate as of the 12-month anniversary of the date such amendment is adopted by the Board, and any Shares theretofore purchased under the Plan shall be treated as having been purchased under a plan that is not qualified under Section 423 of the Code.

8. The first sentence of Section 14(b) of the Plan hereby is amended and restated to read in its entirety as follows:

Subject to adjustment upon changes in capitalization of the Company as provided in Section 17 hereof, the maximum number of Shares which shall be made available for sale under the Plan for Offering Periods ending after December 31, 2009 shall be Two Hundred Fifty Thousand (250,000) Shares.

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9. The Subsidiaries listed on Schedule A to the Plan hereby are deleted and replaced with the following AllscriptsMisys, LLC .

As adopted by the Board of Directors on January 6, 2010.

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Appendix B

ALLSCRIPTS-MISYS HEALTHCARE SOLUTIONS, INC.

EMPLOYEE STOCK PURCHASE PLAN

Effective January 1, 2006

As Amended on January 6, 2010

1. Purpose. The purpose of the Plan is to provide Employees of the Company and Participating Subsidiaries with an opportunity to purchase common stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an Employee Stock Purchase Plan under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that Section of the Code.

2. Definitions. As used herein, the terms set forth below have the meanings assigned to them in this Section 2 and shall include the plural as well as the singular.

1933 Act means the Securities Act of 1933, as amended.

1934 Act means the Securities Exchange Act of 1934, as amended.

Administrator means the brokerage firm or financial institution (if any) retained to perform administrative services described in Section 10(b).

Board of Directors or *Board* means the board of directors of Allscripts-Misys Healthcare Solutions, Inc.

Business Day shall mean a day on which the NASDAQ Stock Market (NASDAQ) is open for trading.

Brokerage Account means the account in which the Purchased Shares are held.

Code means the Internal Revenue Code of 1986, as amended from time to time.

Committee means the Compensation Committee of the Board of Directors, or the designee of the Compensation Committee.

Company means Allscripts-Misys Healthcare Solutions, Inc., a Delaware corporation.

Compensation means the base pay received by a Participant, including commissions, overtime and bonuses, but excluding stock option awards, stock grants, expense reimbursements, relocation-related payments and automobile allowances. Forms of compensation not specifically listed herein shall be included or excluded from Compensation as determined in the sole discretion of the Committee and applied uniformly to all Participants with respect to the applicable offering.

Effective Date means January 1, 2006.

Employee means any individual who is a common law employee of the Company or any other Participating Subsidiary whose customary employment with such entity is (i) at least twenty (20) hours per week and (ii) for more than five (5) months per calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company or the Participating Subsidiary, as appropriate. For purposes of the Plan, the term employee shall not include any individual who performs service for the Company or a Participating Subsidiary pursuant to an agreement (written or oral) that classifies such individual s relationship with the Company or a Participating Subsidiary as other than a common law employee, regardless of whether such individual is at any time determined to be a common law employee of the Company or a Participating Subsidiary.

Enrollment Date means the first Business Day of each Offering Period.

Exercise Date means the last Business Day of each Offering Period.

Fair Market Value on or as of any date means the NASDAQ Official Closing Price (as defined on www.nasdaq.com) (or such substantially similar successor price thereto) for a Share as reported on www.nasdaq.com (or a substantially similar successor website) on the relevant valuation date or, if no NASDAQ Official Closing Price is reported on such date, on the preceding day on which a NASDAQ Official Closing Price was reported; or, if the Shares are no longer listed on NASDAQ, the closing price for Shares as reported on the official website for such other exchange on which the Shares are listed.

Offering Period means every three (3) month period beginning each March 1, June 1, September 1 and December 1 or such other period designated by the Committee.

Option means an option granted under this Plan that entitles a Participant to purchase Shares.

Participant means an Employee who satisfies the requirements of Sections 3 and 5 of the Plan.

Participating Subsidiary means a Subsidiary that has been authorized by the Committee or the Board to extend the benefits of the Plan to its Employees. Participating Subsidiaries shall be listed on Schedule A hereto, which shall be updated as needed from time to time.

Plan means this Allscripts-Misys Healthcare Solutions, Inc. Employee Stock Purchase Plan.

Purchase Account means the account used to purchase Shares through the exercise of Options under the Plan.

Purchase Date means the last Business Day of each Offering Period, or such other date as shall be established by the Committee.

Purchase Price shall be, with respect to each Offering Period, 95% of the Fair Market Value of a Share on the Exercise Date for such Offering Period.

Purchased Shares means the full Shares issued pursuant to the exercise of Options under the Plan.

Shares means the common stock of the Company.

Subsidiary means an entity, domestic or foreign, of which not less than 50% of the voting equity is held by the Company or a Subsidiary, whether or not such entity now exists or is hereafter organized or acquired by the Company or a Subsidiary.

3. Eligibility.

(a) Only Employees of the Company or a Participating Subsidiary shall be eligible to be granted Options under the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an Option under the Plan if (i) immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding Options or options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company, or (ii) such Option would permit his or her rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company and its Subsidiaries to accrue at a rate that exceeds twenty-five thousand dollars ($25,000) of the Fair Market Value of such stock (determined at the time each such Option is granted) for each calendar year in which such Option is outstanding at any time.

4. Exercise of an Option. Options shall be exercised on behalf of Participants in the Plan every Purchase Date, using payroll deductions that have accumulated in the Participants Purchase Accounts during the immediately preceding Offering Period or that have been retained from a prior Offering Period.

5. Participation.

(a) An Employee shall be eligible to participate on the first Enrollment Date that occurs after such Employee s first date of employment with the Company or a Participating Subsidiary; provided, that such Employee properly completes and submits an election form by the deadline prescribed by the Company.

(b) An Employee who does not become a Participant on the first Enrollment Date on which he or she is eligible may thereafter become a Participant on any subsequent Enrollment Date by properly completing and submitting an election form by the deadline prescribed by the Company.

(c) Payroll deductions for a Participant shall commence on the first payroll date following the Enrollment Date and shall end on the last payroll date in the Offering Period to which such authorization is applicable, unless sooner terminated by the Participant as provided in Section 11 hereof.

6. Payroll Deductions.

(a) A Participant shall elect to have payroll deductions made during an Offering Period equal to no less than 1% of the Participant s Compensation up to a maximum of 20% (or such greater amount as the Committee establishes from time to time). The amount of such payroll deductions shall be in whole percentages (for example, 3%, 12%, 20%). All payroll deductions made by a Participant shall be credited to his or her Purchase Account. A Participant may not make any additional payments into his or her Purchase Account.

(b) A Participant may change his or her payroll deduction percentage under subsection (a) above by properly completing and submitting an election change form in accordance with the procedures prescribed by the Committee. The change in amount shall be effective as of the first Enrollment Date following the date of filing of the election change form.

(c) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a Participant s payroll deductions may be decreased to zero percent (0%) at any time during an Offering Period. Payroll deductions shall recommence at the rate provided in such Participant s election form at the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the Participant as provided in Section 11 hereof.

7. Grant of Option. On each Purchase Date, each Participant in an Offering Period shall be granted an Option to purchase on such Purchase Date a number of full Shares determined by dividing such Participant s payroll deductions accumulated prior to such Purchase Date and retained in the Participant s Purchase Account as of the Purchase Date by the applicable Purchase Price.

8. Exercise of Option. A Participant s Option for the purchase of Shares shall be exercised automatically on the Exercise Date, and the maximum number of Shares subject to the Option shall be purchased for such Participant at the applicable Purchase Price with the accumulated payroll deductions in his or her Purchase Account. All other payroll deductions accumulated in a Participant s Purchase Account and not used to purchase Shares on an Exercise Date shall be distributed to the Participant. No fractional Shares shall be purchased; any payroll deductions accumulated in a Participant s Purchase Account which are not sufficient to purchase a full Share shall be retained in the Purchase Account for the next subsequent Offering Period, subject to earlier withdrawal by the Participant as provided in Section 11 hereof. During a Participant s lifetime, a Participant s Option is exercisable only by him or her. The Company shall satisfy the exercise of all Participants Options for the purchase of Shares through the Company s purchase of Shares from the open market and not through the issuance of new Shares.

9. Approval by Shareholders. The amendment to the Plan to increase the number of Shares available from Two Hundred Fifty Thousand (250,000) Shares to Five Hundred Thousand (500,000) Shares shall be submitted to the shareholders of the Company for approval within twelve (12) months after the date such amendment is adopted by the Board. Such shareholder approval may be obtained at a duly held shareholders meeting by the

affirmative vote of the holders of a majority of the Shares of the Company present at the meeting or represented and entitled to vote thereon. If such shareholder approval is not obtained, then the Plan shall terminate as of the 12-month anniversary of the date such amendment is adopted by the Board, and any Shares theretofore purchased under the Plan shall be treated as having been purchased under a plan that is not qualified under Section 423 of the Code.

10. Administration.

(a) Powers and Duties of the Committee. The Plan shall be administered by the Committee. Subject to the provisions of the Plan, Section 423 of the Code and the regulations thereunder, the Committee shall have the discretionary authority to determine the time and frequency of granting Options, the terms and conditions of the Options and the number of Shares subject to each Option. The Committee shall also have the discretionary authority to do everything necessary and appropriate to administer the Plan, including, without limitation, interpreting the provisions of the Plan (but any such interpretation shall not be inconsistent with the provisions of Section 423 of the Code). All actions, decisions and determinations of, and interpretations by the Committee with respect to the Plan shall be final and binding upon all Participants and upon their executors, administrators, personal representatives, heirs and legatees. No member of the Board of Directors or the Committee shall be liable for any action, decision, determination or interpretation made in good faith with respect to the Plan or any Option granted hereunder. The Plan shall be administered so as to ensure that all Participants have the same rights and privileges as are provided by Section 423(b)(5) of the Code.

(b) Administrator. The Company, Board or the Committee may engage the services of a brokerage firm or financial institution (the Administrator) to perform certain ministerial and procedural duties under the Plan including, but not limited to, mailing and receiving notices contemplated under the Plan, determining the number of Purchased Shares for each Participant, maintaining or causing to be maintained the Purchase Account and the Brokerage Account, disbursing funds maintained in the Purchase Account or proceeds from the sale of Shares through the Brokerage Account, and filing with the appropriate tax authorities proper tax returns and forms (including information returns) and providing to each Participant statements as required by law or regulation.

(c) Indemnification. Each person who is or shall have been (a) a member of the Board, (b) a member of the Committee, or (c) an officer or employee of the Company to whom authority was delegated in relation to this Plan, shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company s approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit or proceeding against him or her; provided, however, that he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf, unless such loss, cost, liability or expense is a result of his or her own willful misconduct or except as expressly provided by statute.

The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company s certificate of incorporation or bylaws, any contract with the Company, as a matter of law, or otherwise, or of any power that the Company may have to indemnify them or hold them harmless.

11. Withdrawal. A Participant may withdraw from the Plan by properly completing and submitting to the Company a withdrawal form in accordance with the procedures prescribed by the Committee. Upon withdrawal, any payroll deductions credited to the Participant s Purchase Account prior to the effective date of the Participant s withdrawal from the Plan will be returned to the Participant. No further payroll deductions for the

purchase of Shares will be made during subsequent Offering Periods, unless the Participant properly completes and submits an election form, by the deadline prescribed by the Company. A Participant s withdrawal from an offering will not have any effect upon his or her eligibility to participate in the Plan or in any similar plan that may hereafter be adopted by the Company.

12. Termination of Employment. Upon termination of a Participant s employment for any reason prior to the Purchase Date, whether voluntary or involuntary, including retirement, death or as a result of liquidation, dissolution, sale, merger or a similar event affecting the Company or a Participating Subsidiary, the payroll deductions credited to his or her Purchase Account will be returned to him or her or, in the case of the Participant s death, to the person or persons entitled thereto under Section 15, and his or her Option will be automatically terminated.

13. Interest. No interest shall accrue on the payroll deductions of a Participant in the Plan.

14. Stock.

(a) The stock subject to Options shall be common stock of the Company as traded on the NASDAQ or on such other exchange as the Shares may be listed.

(b) Subject to adjustment upon changes in capitalization of the Company as provided in Section 17 hereof, the maximum number of Shares which shall be made available for sale under the Plan for Offering Periods ending after December 31, 2009 shall be Two Hundred Fifty Thousand (250,000) Shares. If, on a given Exercise Date, the number of Shares with respect to which Options are to be exercised exceeds the number of Shares then available under the Plan, the Committee shall make a pro rata allocation of the Shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable.

(c) A Participant shall have no interest or voting right in Shares covered by his or her Option until such Option has been exercised and the Participant has become a holder of record of Shares acquired pursuant to such exercise.

15. Designation of Beneficiary. A Participant may designate a beneficiary who is to receive any Purchased Shares or payroll deductions, if any, in the Participant s accounts under the Plan in the event of such Participant s death. Beneficiary designations shall be made in accordance with procedures prescribed by the Committee. If no properly designated beneficiary survives the Participant, the Purchased Shares and payroll deductions, if any, will be distributed to the Participant s estate.

16. Assignability of Options. Neither payroll deductions credited to a Participant s Purchase Account nor any rights with regard to the exercise of an Option or to receive Shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the Participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw from an Offering Period in accordance with Section 11 hereof.

17. Adjustment of Number of Shares Subject to Options.

(a) Adjustment. Subject to any required action by the stockholders of the Company, the maximum number of securities available for purchase under the Plan, as well as the price per security and the number of securities covered by each Option under the Plan which has not yet been exercised shall be appropriately adjusted in the event of any a stock split, reverse stock split, stock dividend, combination or reclassification of the common stock of the Company, or any other increase or decrease in the number of Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been effected without receipt of consideration . Such adjustment shall be made by the Board or the Committee, whose determination in that respect shall be final, binding and conclusive. If any such adjustment would result in a fractional security being available under the Plan, such fractional security shall be disregarded. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option. The Options granted pursuant to the Plan shall not be adjusted in a manner that causes the Options to fail to qualify as options issued pursuant to an employee stock purchase plan within the meaning of Section 423.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the New Exercise Date). The New Exercise Date shall be before the date of the Company s proposed dissolution or liquidation and shall be set by the Committee. The Company will notify each Participant in writing, as soon as administratively practicable prior to the New Exercise Date, that the Purchase Date for the Participant s Option has been changed to the New Exercise Date and that the Participant s Option shall be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 11 hereof.

(c) Merger or Asset Sale. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each outstanding Option shall be assumed or an equivalent option substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the New Exercise Date). The New Exercise Date shall be before the date of the Company s proposed sale or merger and shall be set by the Committee. The Company will notify each Participant in writing, as soon as administratively practicable prior to the New Exercise Date, that the Purchase Date for the Participant s Option has been changed to the New Exercise Date and that the Participant s Option shall be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 11 hereof.

18. Amendments or Termination of the Plan.

(a) The Board of Directors or the Committee may at any time and for any reason amend, modify, suspend, discontinue or terminate the Plan without notice; provided that no Participant s existing rights in respect of existing Options are adversely affected thereby. To the extent necessary to comply with Section 423 of the Code (or any other applicable law, regulation or stock exchange rule), the Company shall obtain shareholder approval in such a manner and to such a degree as required.

(b) Without shareholder consent and without regard to whether any Participant rights may be considered to have been adversely affected, the Board or the Committee shall be entitled to change the Offering Periods, limit or increase the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in an amount less than or greater than the amount designated by a Participant in order to adjust for delays or mistakes in the Company s processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Shares for each Participant properly correspond with amounts withheld from the Participant s Compensation, and establish such other limitations or procedures as the Board or the Committee determines in its sole discretion advisable which are consistent with the Plan; provided, however, that changes to (i) the Purchase Price, (ii) the Offering Period, or (iii) the maximum of percentage of Compensation that may be deducted pursuant to Section 6(a), shall not be effective until communicated to Participants in a reasonable manner, with the determination of such reasonable manner in the sole discretion of the Board or the Committee.

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19. No Other Obligations. The receipt of an Option pursuant to the Plan shall impose no obligation upon the Participant to purchase any Shares covered by such Option. Nor shall the granting of a Option pursuant to the Plan constitute an agreement or an understanding, express or implied, on the part of the Company to employ the Participant for any specified period.

20. Notices and Communication. Any notice or other form of communication which the Company or a Participant may be required or permitted to give to the other shall be provided through such means as designated by the Committee, including but not limited to any paper or electronic method.

21. Condition Upon Issuance of Shares.

(a) Shares shall not be issued with respect to an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the 1933 Act and the 1934 Act and the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. General Compliance. The Plan will be administered and Options will be exercised in compliance with the 1933 Act, 1934 Act and all other applicable securities laws and Company policies, including without limitation, the Company s Insider Trading Policy.

23. Term of the Plan. The Plan shall continue in effect for a term of ten (10) years unless sooner terminated under Section 18.

24. Governing Law. The Plan and all Options granted hereunder shall be construed in accordance with and governed by the laws of the State of Delaware without reference to choice of law principles and subject in all cases to the Code and the regulations thereunder.

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SCHEDULE A

Subsidiaries Participating in the Plan

AllscriptsMisys, LLC

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ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

222 MERCHANDISE MART, SUITE 2024

CHICAGO, IL 60654

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M27301-P01922

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.	**For All**	**Withhold All**	**For All Except**	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.
The Board of Directors recommends a vote FOR ALL of the following:				
1. Election of Directors	¨	¨	¨	______________________
Nominees				

01) Dennis Chookaszian	06) John King
02) Eugene V. Fife	07) Michael J. Kluger
03) Marcel L. Gus Gamache	08) Philip M. Pead
04) Philip D. Green	09) Glen E. Tullman
05) Edward A. Kangas	10) Stephen Wilson

The Board of Directors recommends a vote FOR proposals 2 and 3.

		For	Against	Abstain
2.	Approval of the amendment to the Allscripts Healthcare Solutions, Inc. Employee Stock Purchase Plan to, among other items, increase the number of shares available for grant thereunder by 250,000.	¨	¨	¨
3.	Ratification of the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the fiscal year ending December 31, 2010.	¨	¨	¨

NOTE: Such other business as may properly come before the meeting or any adjournment thereof.

For address change/comments, mark here. ¨

(see reverse for instructions)

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

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M27302-P01922

ALLSCRIPTS HEALTHCARE SOLUTIONS, INC.

This proxy is solicited by the Board of Directors

Annual Meeting of Stockholders

November 4, 2010 9:00 AM local time

The undersigned hereby appoints Glen Tullman and Lee Shapiro as proxies, each with the power to appoint his substitute, and hereby authorizes them, and each of them acting singly, to represent and vote, as designated on the reverse side, all the shares of common stock of Allscripts Healthcare Solutions, Inc., a Delaware corporation (Allscripts), held of record by the undersigned at the close of business on September 14, 2010 at the Annual Meeting of Stockholders to be held November 4, 2010, promptly at Allscripts principal offices located at 222 Merchandise Mart Plaza, Suite 2024, Chicago, Illinois 60654, or any adjournment or postponement thereof (the Annual Meeting), and authorizes and instructs said proxies to vote in the manner directed on the reverse side.

This proxy, when properly executed, will be voted in the manner directed by the undersigned stockholder. **If no direction is made, this proxy will be voted FOR all of the proposals set forth on the reverse side.** In their discretion, the proxies are authorized to vote upon such other matters as may properly come before the Annual Meeting. If you wish to vote by telephone or via the Internet, please read the directions on the reverse side.

WHETHER OR NOT YOU PLAN TO ATTEND THIS MEETING, PLEASE SUBMIT YOUR PROXY PROMPTLY BY TELEPHONE OR THROUGH THE INTERNET OR BY SIGNING, DATING AND RETURNING THE PROXY CARD IN THE ENCLOSED PREPAID ENVELOPE.

Address Change/Comments: ____

____

(If you noted any Address Changes and/or Comments above, please mark corresponding box on the reverse side.)

Continued and to be signed on reverse side

TD> each of the Transaction Agreement, merger agreement, reorganization agreement, registration rights agreement and escrow agreement having been executed; the shares of New Discovery common stock to be issued pursuant to the merger having been approved for listing on the Nasdaq Global Select Market, subject to official notice of issuance; the registration statement on Form 10 of AMC having been declared effective by the SEC and the absence of any stop order suspending effectiveness or proceedings seeking a stop order or suspension of effectiveness with respect to such registration statement; the shares of Series A common stock of AMC to be issued in the AMC spin-off to holders of DHC common stock having been approved for listing on The Nasdaq Stock Market, subject to official notice of issuance; and all steps required to complete the AMC spin-off having been satisfied, completed or waived, as applicable.

Additional Conditions to obligations of Advance/Newhouse. The obligation of Advance/Newhouse to consummate the Transaction is subject to the satisfaction or waiver, at or prior to the unconditional time, of the following additional conditions:

all representations and warranties of DHC will be true and correct as of the date of the Transaction Agreement and the unconditional time, or as of a specified earlier date, except for inaccuracies in the representations made by DHC (other than representations relating to ownership of the shares of Discovery and interests of Animal Planet which must be true and correct in all respects) that would not have a material adverse effect on the business and operations of New Discovery or on the ability of DHC and New Discovery to consummate the Transaction;

each of DHC, New Discovery and Merger Sub will have performed in all material respects all obligations and agreements, and materially complied with all covenants and conditions required to be performed or complied with; and

receipt of the opinion of Ernst and Young LLP or another nationally recognized accounting firm or law firm to the effect that, for U.S. federal income tax purposes, the contribution (in conjunction with the merger) will qualify as a tax-free exchange within the meaning of Section 351 of the Code.

Additional Conditions to obligations of each of DHC, New Discovery and Merger Sub. The obligations of DHC, New Discovery and Merger Sub to consummate the transaction are subject to the satisfaction or waiver, at or prior to the unconditional time, of the following additional conditions:

all representations and warranties of Advance/Newhouse will be true and correct as of the date of the Transaction Agreement and the unconditional time, or as of a specified earlier date, except for inaccuracies in the representations made by Advance/Newhouse (other than representations relating to ownership of the shares of Discovery and interests of Animal Planet which must be true and correct in all respects) that would not have a material adverse effect on the ability of Advance/Newhouse to consummate the Transaction;

Advance/Newhouse will have performed in all material respects all obligations and agreements, and materially complied with all covenants and conditions required to be performed or complied with;

the New Discovery rights agreement will have been executed and delivered and in full force and effect and no act will have been taken or, to the knowledge of DHC, New Discovery or Merger Sub, threatened, seeking to invalidate the rights agreement or any transactions contemplated by the rights agreement; and

receipt of the opinion of Skadden, Arps, Slate, Meagher & Flom LLP or another nationally recognized law firm to the effect that, for U.S. federal income tax purposes, the AMC spin-off should qualify as a reorganization under Sections 368(a) and 355 of the Code, and the merger (in conjunction with the contribution) will qualify as a tax-free exchange within the meaning of Section 351 of the Code. Such opinion will confirm the conclusions set forth in the opinion of Skadden, Arps, Slate, Meagher & Flom LLP in Material United States Federal Income Tax Consequences of the Merger and the AMC Spin-Off Material U.S. Federal Income Tax Consequences of the Merger and Material United States Federal Income Tax Consequences of the Merger and the AMC Spin-Off Material U.S. Federal Income Tax Consequences of the AMC Spin-Off .

Under the Transaction Agreement, the term unconditional time generally means such time prior to the effective time of the AMC spin-off that all conditions to each party s obligation to consummate the Transaction (other than the delivery of certain documents that can only be delivered at the closing of the Transaction) have been satisfied or waived and the parties have acknowledged in writing that all such conditions have been satisfied or waived.

DHC reserves the right to waive any of the conditions to its obligations to close the Transaction (other than the mutual condition relating to the receipt of DHC stockholder approval, which is non-waivable). To the extent DHC waives any such condition, DHC does not intend to resolicit shareholder approval of the Transaction unless the waived condition relates to (i) the effectiveness of New Discovery s or AMC s registration statement under applicable securities laws, (ii) the stock exchange listing of the New Discovery common stock or the Series A AMC common stock, (iii) the completion of the AMC spin-off or (iv) the receipt of an opinion from tax counsel to the effect that, for U.S. federal income tax purposes, the merger (in conjunction with the contribution) will qualify as a tax-free exchange within the meaning of Section 351 of the Code. DHC would resolicit stockholder approval in connection with a waiver of any of these enumerated conditions because they affect directly the consideration being received by the DHC stockholders in the Transaction and the AMC spin-off and could affect the tax consequences of the merger.

Termination of the Transaction Agreement

The Transaction Agreement may be terminated and the Transaction abandoned at any time prior to the unconditional time, whether before or after the approval of DHC s stockholders:

by mutual written agreement of DHC and Advance/Newhouse;

by either DHC or Advance/Newhouse, if the approval of DHC s stockholders is not obtained at the Annual Meeting;

by either DHC or Advance/Newhouse, if any of the conditions precedent to such party s obligations has become incapable of being fulfilled;

by either DHC or Advance/Newhouse, if any court or other governmental authority has issued an order or taken any other action permanently restraining or otherwise prohibiting the Transaction and such order, or other action has become final and nonappealable; or

by either DHC or Advance/Newhouse, if the unconditional time does not occur on or prior to December 31, 2008.

In order to terminate the Transaction Agreement pursuant to any of the final four bullets noted above, the party seeking to terminate the Transaction Agreement must not be in breach of any of its representations, warranties or covenants in the Transaction Agreement in any material respect.

If the closing of the Transaction has not occurred by the 2nd business day after the unconditional time has occurred, then the Transaction Agreement may be terminated and the Transaction abandoned at any time after the close of business on such day by either DHC or Advance/Newhouse; provided that the party seeking to terminate the Transaction Agreement is not in breach of the Transaction Agreement in any material respect.

Indemnification

Indemnification by DHC and New Discovery

Subject to certain limitations in the Transaction Agreement, following completion of the Transaction, DHC and New Discovery will indemnify Advance/Newhouse, its affiliates and their respective officers, directors, stockholders, partners, employees, representatives, agents and trustees, against:

any actual and direct losses incurred by any such person arising out of or resulting from any breach of DHC and New Discovery s representation that DHC owns shares of Discovery and interests of Animal Planet;

any actual and direct losses incurred by any such person arising out of or resulting from any failure by DHC to perform any covenant or agreement made by DHC in the Transaction Agreement in all material respects;

any liability for taxes incurred by Advance/Newhouse as a consequence of the release of any of the Advance/Newhouse escrow shares from the escrow to the extent that the Advance/Newhouse contribution (in conjunction with the merger) otherwise qualified as a tax-free exchange within the meaning of Section 351 of the Code; and

any actual or direct losses incurred by such person arising out of or relating to any claim made by a third party that arises:

solely out of the ownership or operation of the business, assets or liabilities of AMC after the closing of the Transaction; or out of any state of facts relating to DHC, New Discovery or AMC (but not including any liability of Discovery) existing at or prior to the closing of the Transaction.

With respect to the calculation of the actual and direct losses noted above, the amount that DHC or New Discovery would be obligated to pay Advance/Newhouse will be equal to the amount of such loss multiplied by one plus a fraction, the numerator of which is the loss percentage and the denominator of which is one minus the loss percentage .

Without duplication of the foregoing indemnity, DHC and New Discovery will indemnify Advance/Newhouse, its affiliates and their respective officers, directors, stockholders, employees, representatives, agents and trustees, from Advance/Newhouse s loss percentage of:

any losses incurred by any such person arising out of or resulting from any failure by DHC to perform any covenant or agreement made by DHC in the Transaction Agreement in all material respects;

any liability of any of DHC, New Discovery or AMC (but not including any liability of Discovery and its subsidiaries or the company holding the assets of Ascent Media Sound and its subsidiaries) arising out of a state of facts existing at or prior to the closing date of the Transaction; and

any liabilities or other obligations incurred, created or assumed by the company holding the assets of Ascent Media Sound or its subsidiaries prior to the closing of the Transaction for which New Discovery or its subsidiaries (other than the company holding the assets of Ascent Media Sound or its subsidiaries) become obligated after the closing of the Transaction.

No indemnification by DHC and New Discovery will be payable to Advance/Newhouse to the extent that New Discovery has been indemnified for losses covered by such indemnification by AMC pursuant to the reorganization agreement or tax sharing agreement.

Indirect losses will be calculated, for purposes of indemnification, by multiplying (x) a fraction (1) the numerator of which is the loss percentage and (2) the denominator of which is one minus the loss percentage by (y) the difference, if positive, between the fair market value of New Discovery determined as if the relevant covenant or agreement had been performed in all respects, and the fair market value of New Discovery and its subsidiaries, taken as a whole, determined after giving effect to the breach, nonperformance or violation of such covenant or agreement. The fair market value of New Discovery will be determined after giving effect to, among other considerations and effects, the stock price of shares of New Discovery common stock, the equity value of New Discovery, any amounts recovered by New Discovery under insurance policies or indemnities from third parties, or AMC under the reorganization agreement and any tax effects relating to or resulting from the loss.

Under the Transaction Agreement, the term loss percentage means the lesser of (i) Advance/Newhouse s equity interest in New Discovery as of the date the loss is calculated and (ii) 331/3%.

Indemnification by Advance/Newhouse

Subject to certain limitations in the Transaction Agreement, following completion of the Transaction, Advance/Newhouse will indemnify DHC and New Discovery, its affiliates and their respective officers, directors, stockholders, partners, employees, representatives, agents and trustees, against any losses incurred by any such person arising out of or resulting from:

any breach of a representation or warranty made by Advance/Newhouse in the Transaction Agreement; and

any losses incurred by any such party arising out of or resulting from any breach or failure by Advance/Newhouse to perform any covenant or agreement made by Advance/Newhouse in the Transaction Agreement.

Merger Agreement

Structure of the Merger

To effect the merger, DHC has formed two wholly-owned subsidiaries. A transitory merger sub that we refer to as Merger Sub, and New Discovery. At the effective time of the merger, Merger Sub will merge with and into DHC in accordance with the provisions of Delaware law, and DHC will continue as the surviving entity. As a result of the merger, including the conversion of securities described below, New Discovery will become the new public parent company and DHC will become a wholly-owned subsidiary of New Discovery.

Effective Time of Merger

The effective time of the merger will be on the date and at the time that the certificate of merger with respect to the merger has been accepted for filing by the Delaware Secretary of State (or such later date and time as may be specified in the certificate of merger). Under no circumstances, however, will the effective time of the merger occur prior to the completion of the AMC spin-off or the completion of the contribution by Advance/Newhouse pursuant to the Transaction Agreement.

Conversion of outstanding common stock of DHC

At the effective time of the merger:

- each share of DHC Series A common stock outstanding immediately prior to the effective time of the merger will be converted into the right to receive 0.50 shares of New Discovery Series A common stock and 0.50 shares of New Discovery Series C common stock;

- each share of DHC Series B common stock outstanding immediately prior to the effective time of the merger will be converted into the right to receive 0.50 shares of New Discovery Series B common stock and 0.50 shares of New Discovery Series C common stock;

- each share of DHC Series A common stock and DHC Series B common stock held in treasury of DHC immediately prior to the effective time of the merger will be cancelled and retired without payment of any consideration therefor and without any conversion thereof; and

- each share of common stock of Merger Sub issued and outstanding immediately prior to the effective time of the merger will be converted into one share of the common stock of the surviving entity and the shares of common stock of the surviving entity so issued in such conversion will constitute the only outstanding shares of capital stock of the surviving entity.

For a description of New Discovery s capital stock, see Description of New Discovery Capital Stock, and for a description of the comparative rights of holders of DHC common stock and New Discovery common stock, see Comparison of the Rights of Stockholders of DHC and New Discovery.

Conversion of Shares; Exchange Procedures

Conversion and Exchange of Shares. The conversion of shares of DHC common stock into the right to receive shares of New Discovery common stock will occur automatically at the effective time of the merger. The exchange agent will, as soon as reasonably practicable after the effective time of the merger, exchange certificates (or book-entry shares) representing shares of DHC common stock for the applicable shares of New Discovery common stock to be received in the merger pursuant to the terms of the merger agreement.

Letter of Transmittal. The exchange agent will send a letter of transmittal to each record holder of certificated shares of common stock of DHC as of the effective time of the merger. This mailing will contain instructions on how to surrender shares of DHC common stock represented by certificate in exchange for the shares of New Discovery common stock the holder is entitled to receive under the merger agreement. When DHC stock certificates are delivered to the exchange agent along with a properly executed letter of transmittal and any other required documents, such stock certificates will be canceled. **Do not submit your certificated shares of DHC common stock for exchange until you receive the transmittal instructions and letter of transmittal from the exchange agent.**

If a certificate for DHC common stock has been lost, stolen or destroyed, the exchange agent will issue the shares of New Discovery common stock properly issuable under the merger agreement upon compliance by the applicable stockholder with the replacement requirements established by the exchange agent, a letter of transmittal specifying that delivery shall be effected, and risk of loss and title to the certificates held by such holder representing such former shares shall pass, only upon proper delivery of the certificates to the exchange agent and instructions for use in effecting the surrender of the certificates.

Fractional Shares. Fractional shares of New Discovery common stock will not be issued in the merger. Instead, each holder of DHC common stock who would otherwise receive a fractional share of New Discovery common stock, will receive cash in an amount determined by reference to the trading price of a share of New Discovery common stock of the applicable series as of the first day of regular way trading in New Discovery common stock following the effective time.

Dividends and Distributions. No dividends or other distributions issuable with respect to shares of New Discovery common stock will be paid to the holder of any unsurrendered certificates until those certificates are surrendered. Upon surrender, New Discovery will pay such holders of New Discovery common stock issued in exchange, without interest, any unpaid dividends or other distributions payable with respect to such shares of New Discovery common stock.

Treatment of Stock Options

Options Held by Robert Bennett

At the effective time of the merger, each outstanding option to purchase shares of DHC Series A common stock held by Robert R. Bennett, a director of DHC, will be converted into an option to purchase shares of New Discovery Series A common stock, an option to purchase shares of New Discovery Series C common stock, and an option to purchase shares of AMC Series A common stock. The exercise price of each such New Discovery Series A option, New Discovery Series C option and AMC Series A option will be calculated by multiplying (x) the volume weighted average price of the common stock subject to such option over the first 10 trading days of regular way trading after closing of the Transaction, by (y) a fraction, (1) the numerator of which is the exercise price of the DHC option and (2) the denominator of which is the volume weighted average price of the DHC Series A common stock subject to such DHC option over 5 consecutive trading days of regular way trading prior to closing of the Transaction. The number of shares of New Discovery Series A common stock, New Discovery Series C common stock and AMC Series A common stock subject to each option will be calculated so as to preserve the aggregate intrinsic value of the DHC Series A option. Generally, the terms and conditions of each option granted in the merger, including vesting conditions and the scheduled expiration date, will remain as set forth in the DHC option held by Mr. Bennett immediately prior to the Transaction.

By way of illustration, the chart below shows, for each outstanding option to acquire shares of DHC Series A common stock held by Mr. Bennett as of June 30, 2008, the aggregate number of shares of New Discovery Series A common stock, New Discovery Series C common stock and AMC Series A common stock subject to the converted options and the exercise price for each such converted option. For the purposes of the illustration, and in lieu of a volume weighted average price of the applicable common stock, we used the closing price of DHC Series A common stock as of a recent date, which was $21.18, and derived hypothetical post-closing trading prices for New Discovery Series A common stock, New Discovery Series C common stock and AMC Series A common stock. Because the value of the DHC Series A common stock, New Discovery Series A common stock, New Discovery Series C common stock and AMC Series A common stock may differ from the prices used in this example, the number of shares subject to, and the exercise price for, each converted option may be different.

DHC Series A Options		**New Discovery and AMC Options**					
No. of DHC Series A Shares	**Exercise Price**	**No. of New Discovery Series A Shares**	**Exercise Price**	**No. of New Discovery Series C Shares**	**Exercise Price**	**No. of AMC Series A Shares**	**Exercise Price**
100,000	$ 11.84	50,000	$ 11.19	50,000	$ 10.12	5,000	$ 23.68
100,000	$ 13.00	50,000	$ 12.29	50,000	$ 11.12	5,000	$ 26.00
10,000	$ 22.90	5,000	$ 21.64	5,000	$ 19.58	500	$ 45.80

At the effective time of the merger, each outstanding option to purchase shares of DHC Series B common stock, all of which options are held by Mr. Bennett, will be converted into an option to purchase shares of New Discovery Series B common stock, an option to purchase shares of New Discovery Series C common stock and an option to purchase shares of AMC Series B common stock. The exercise price of each such New Discovery Series B option, New Discovery Series C option and AMC Series B option will be calculated by multiplying (x) the volume weighted average price of the common stock subject to such option over the first 10 trading days of regular way trading after closing of the Transaction, and (y) a fraction, (1) the numerator of which is the exercise price of the DHC Series B option and (2) the denominator of which is the volume weighted average price of the DHC Series B common stock subject to such DHC Series B option over 5 consecutive trading days of regular way trading prior to closing of the Transaction. The number of shares of New Discovery Series B common stock, New Discovery Series C common stock and AMC Series B common stock subject to each New Discovery Series B option, New Discovery Series C option and AMC Series B option will be calculated so as to preserve the aggregate intrinsic value of the DHC Series B option. Generally, the terms and conditions of each option granted in the merger, including vesting conditions and the scheduled expiration date, will remain as set forth in the DHC option held by Mr. Bennett immediately prior to the Transaction. Mr. Bennett s options to acquire shares of DHC Series B common stock are, at his option, exercisable for shares of DHC Series B common stock or DHC Series A common stock. The exercise price applicable to the DHC Series B common stock is different from the exercise price applicable to the DHC Series A common stock. Accordingly, after the effective time of the merger, Mr. Bennett will have the option to exercise such stock option for shares of New Discovery Series A common stock, New Discovery Series C common stock and AMC Series A common stock (rather than New Discovery Series B common stock, New Discovery Series B common stock and AMC Series B common stock). If Mr. Bennett exercises such stock options for shares of Series A common stock, the number of shares subject to such options and their exercise prices shall be determined according to the provisions described in the first paragraph under Options Held by Robert Bennett above.

By way of illustration, the chart below shows, for each outstanding option to acquire DHC Series B common stock held by Mr. Bennett as of June 30, 2008, the aggregate number of shares of New Discovery Series B common stock, New Discovery Series C common stock and AMC Series B common stock subject to the converted option and the exercise price for each such converted option. For the purposes of the illustration, and in lieu of a volume weighted average price of the applicable common stock, we used the closing price of DHC Series B common stock as of a recent date, which was $21.40 and derived hypothetical post-closing trading prices for New Discovery Series B common stock, New Discovery Series C common stock and AMC Series B common stock. Because the value of the DHC Series B common stock, New Discovery Series B common stock, New Discovery Series C common stock and AMC Series B common stock may differ from the prices used in this example, the number of shares subject to, and the exercise price for, each converted option may be different.

DHC Series B Option		New Discovery and AMC Options					
No. of DHC Series B Shares	Exercise Price	No. of New Discovery Series B Shares	Exercise Price	No. of New Discovery Series C Shares	Exercise Price	No. of AMC Series B Shares	Exercise Price
1,667,985	$ 19.06	833,992	$ 18.18	833,992	$ 16.13	83,399	$ 38.12

Director Options

At the effective time of the merger, each outstanding option to purchase shares of DHC Series A common stock held by any member of the board of directors of DHC (other than Mr. Bennett) who will be a director of New Discovery immediately after the effective time of the merger will be converted into an option to purchase shares of New Discovery Series A common stock and an option to purchase shares of New Discovery Series C common stock. The exercise price of each such New Discovery Series A option and Series C option will be calculated by multiplying (x) the volume weighted average price of the common stock subject to such option over the first 10 trading days of regular way trading after closing of the Transaction, by (y) a fraction, (1) the numerator of which is the exercise price of such DHC Series A option and (2) the denominator of which is the volume weighted average price of the DHC Series A common stock subject to such DHC Series A option over 5 consecutive trading days of regular way trading prior to closing of the Transaction. The number of shares of New Discovery Series A common stock and New Discovery Series C common stock subject to each New Discovery Series A option and Series C option will be calculated so as to preserve the aggregate intrinsic value of the DHC Series A option. Generally, the terms and conditions of each option granted in the merger, including vesting conditions and the scheduled expiration date, will remain as set forth in the DHC Series A option held by the director immediately prior to the Transaction.

For the purposes of the following illustration, and in lieu of a volume weighted average price of the applicable common stock, we used the closing price of DHC Series A common stock as of a recent date, which was $21.18 and derived hypothetical post-closing trading prices for New Discovery Series A common stock and New Discovery Series C common stock. Based on such closing price and hypothetical trading prices, the aggregate number of shares of New Discovery Series A common stock subject to the converted options held by a director of DHC (other than Mr. Bennett) who will be a director of New Discovery, will be 38,066 and the aggregate number of shares of New Discovery Series C common stock subject to the converted options held by such directors will be 38,066. In addition, the chart below shows, for an outstanding option to acquire 10,000 shares of Series A common stock of DHC held by one such director the aggregate number of shares of New Discovery Series A common stock and New Discovery Series C common stock subject to the converted options and the exercise price for each such converted option. Because the value of the DHC Series A common stock, New Discovery Series A common stock and New Discovery Series C common stock may differ from the prices used in this example, the number of shares subject to, and the exercise price for, each converted option may be different.

DHC Series A Option		New Discovery Options			
No. of DHC Series A Shares	Exercise Price	No. of New Discovery Series A Shares	Exercise Price	No. of New Discovery Series C Shares	Exercise Price
10,000	$ 22.90	5,555	$ 21.64	5,555	$ 19.58

Other Options

At the effective time of the merger, each outstanding option to purchase shares of DHC Series A common stock, other than those held by Mr. Bennett or the directors of DHC who will serve on the New Discovery board, will be converted into a stock appreciation right relating to shares of New Discovery Series A common stock and a stock appreciation right relating to shares of New Discovery Series C common stock. The base price of each New Discovery Series A SAR and New Discovery Series C SAR will be calculated by multiplying (x) the volume weighted average price of the common stock subject to such New Discovery Series A SAR or New Discovery Series C SAR over the first 10 trading days of regular way trading after closing of the Transaction, and (y) a fraction, (1) the numerator of which is the exercise price of such DHC Series A option and (2) the denominator of which is the volume weighted average price of the DHC Series A common stock subject to such DHC Series A option over 5 consecutive trading days of regular way trading prior to closing of the Transaction. The number of shares of New Discovery Series A common stock and New Discovery Series C common stock relating to each such Series A SAR and Series C SAR, respectively, will be calculated so as to preserve the aggregate intrinsic value of the DHC Series A option. Generally, the terms and conditions of each Series A and Series C SAR granted in the merger, including vesting conditions and the scheduled expiration date, will remain as set forth in the DHC Series A option held by the holder immediately prior to the Transaction, except that the spread between the fair market value of the underlying shares and the base price of each Series A SAR and Series C SAR will be payable solely in shares of New Discovery Series A common stock or New Discovery Series C common stock, as applicable.

For the purposes of the following illustrations, and in lieu of a volume weighted average price of the applicable common stock, we used the closing price of DHC Series A common stock as of a recent date, which was $21.18 and derived hypothetical post-closing trading prices for New Discovery Series A common stock and New Discovery Series C common stock. Based on such closing price and hypothetical trading prices, the aggregate number of shares of New Discovery Series A common stock to which the Series A SARs relate will be 460,928 and the aggregate number of shares of New Discovery Series C common stock to which the Series C SARs relate will be 460,928. In addition, the chart below shows, for an outstanding option to acquire 20,000 shares of Series A common stock of DHC held by an individual other than a director of DHC, the aggregate number of shares of New Discovery Series A common stock to which the Series A SAR relates, the aggregate number of shares of New Discovery Series C common stock to which the Series C SAR relates and the base price for each such SAR. Because the value of the DHC Series A common stock, New Discovery Series A common stock and New Discovery Series C common stock may differ from the prices used in this example, the number of shares to which the SAR relates, and the base price for each SAR, may be different.

DHC Series A Options		New Discovery SARs			
No. of DHC Series A	Exercise	No. of New Discovery	Exercise	No. of New Discovery Series C	Exercise

Shares	Price	Series A Shares	Price	Shares	Price
20,000	$ 11.84	11,111	$ 11.19	11,111	$ 10.12

Treatment of DAP Awards

At the effective time of the merger, the DAP awards will be adjusted as described in Management of New Discovery Executive Compensation Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program Adjustments to DAP Awards. These adjustments are not included in the merger agreement; rather, they were determined by the member representatives of DHC and Advance/Newhouse in accordance with the terms of the DAP.

Conditions to completion of Merger

The respective obligations of the DHC, Merger Sub and New Discovery to consummate the merger are subject to the satisfaction (or, where applicable, waiver), at or prior to the effective time of the merger, of the conditions to the Transaction set forth in the Transaction Agreement.

Termination

The merger agreement will automatically terminate on termination of the Transaction Agreement.

Escrow Agreement

At or prior to the closing of the Transaction, New Discovery and Advance/Newhouse will enter into an escrow agreement with the escrow agent, the form of which is attached as an exhibit to the registration statement of which this proxy statement/prospectus forms a part.

Pursuant to the escrow agreement, following the closing of the Transaction and the issuance of additional shares of New Discovery Series A convertible preferred stock and New Discovery Series C convertible preferred stock consisting of escrow shares to Advance/Newhouse, Advance/Newhouse will deposit such escrow shares with the escrow agent for the benefit of Advance/Newhouse. The escrow shares will be registered in the name of Advance/Newhouse, and Advance/Newhouse will have the right to vote the escrow shares until such time as they are released directly to Advance/Newhouse or returned to New Discovery, in each case, as described below.

The escrow shares (and any related escrow property) will be released from the escrow as follows:

- upon each issuance of shares of New Discovery Series A common stock pursuant to the exercise of a stock appreciation right granted in connection with the merger, the escrow agent will promptly release from escrow and distribute to Advance/Newhouse, a number of shares of New Discovery Series A convertible preferred stock convertible into 1/2 of the number of shares of New Discovery Series A common stock so issued and any escrow property (other than such shares) that are attributable to such released shares of convertible preferred stock;

- upon each issuance of shares of New Discovery Series C common stock pursuant to the exercise of a stock appreciation right granted in connection with the merger, the escrow agent will promptly release from escrow and distribute to Advance/Newhouse, a number of shares of New Discovery Series C convertible preferred stock convertible into 1/2 of the number of shares of New Discovery Series C common stock so issued and any escrow property (other than such shares) that are attributable to such released shares of convertible preferred stock;

- upon each issuance of shares of New Discovery Series A common stock or New Discovery Series B common stock pursuant to the exercise of a New Discovery Series A option or Series B option granted in connection with the merger, the escrow agent will promptly release from escrow and distribute to Advance/Newhouse, a number of shares of New Discovery Series A convertible preferred stock convertible into shares of New Discovery Series A common stock equal to 1/2 of the quotient of (x) the aggregate number of shares of New Discovery Series A common stock or New Discovery Series B common stock subject to such option multiplied by the spread between the fair market value of such shares of New Discovery common stock issuable upon exercise of such option on the date of exercise and the exercise price of such option and (y) the fair market value of shares of New Discovery Series A common stock or New Discovery Series B common stock subject to such option, and any escrow property (other than such shares) that are attributable to such released shares of convertible preferred stock;

upon each issuance of shares of New Discovery Series C common stock pursuant to the exercise of a New Discovery Series C option granted in connection with the merger, the escrow agent will promptly release from escrow and distribute to Advance/Newhouse, shares of New Discovery Series C convertible preferred stock convertible into a number of shares of New Discovery Series C common stock equal to 1/2 of the quotient of (x) the aggregate number of shares of New Discovery Series C common stock subject to such option multiplied by the spread between the fair market value of such shares of New Discovery Series C common stock issuable upon exercise of such Series C option on the date of exercise and the exercise price of such Series C option and (y) the fair market value of shares of New Discovery Series C common stock subject to such Series C option, and any escrow property (other than such shares) that are attributable to such released shares of convertible preferred stock;

the escrow will terminate at such time as all stock appreciation rights and converted options have been exercised or the time period within which such stock appreciation rights and converted options may be exercised has expired, following which the escrow agent will promptly distribute any escrow shares and escrow property remaining in escrow to New Discovery.

The purpose of the issuance of the escrowed shares and the escrow agreement is to provide Advance/Newhouse with protection against dilution resulting from the rollover of the DHC equity awards to New Discovery upon the closing of the Transaction. The parties agreed to this escrow arrangement, in lieu of issuing shares directly to Advance/Newhouse from New Discovery s authorized and unissued share pool upon any of the release events described above, because a periodic issuance of shares in this context would have been less efficient from a tax standpoint.

As described in Transaction Agreement Advance/Newhouse Contribution , the number of shares of New Discovery Series A convertible preferred stock and New Discovery Series C convertible preferred stock that will initially be deposited with the escrow agent will be based on the number of shares of New Discovery Series A common stock, New Discovery Series B common stock and New Discovery Series C common stock that may be issued by New Discovery pursuant to stock options and stock appreciations rights in effect immediately following the merger. See Treatment of Stock Options for a description of how existing options to acquire DHC common stock will be treated in the merger and converted into options or stock appreciation rights relating to New Discovery Series A common stock, New Discovery Series B common stock and New Discovery Series C common stock. For the purposes of the following illustrations, and in lieu of a volume weighted average price of the applicable common stock, we used the closing prices of DHC Series A common stock and DHC Series B common stock as of a recent date, which were $21.18 and $21.40, respectively, and derived hypothetical post-closing trading prices for New Discovery Series A common stock, New Discovery Series B common stock and New Discovery Series C common stock. Based on such closing prices and hypothetical trading prices, (i) the aggregate number of shares of New Discovery Series A common stock subject to converted options and Series A SARs will be, in the aggregate, 603,994, (ii) the aggregate number of shares of New Discovery Series B common stock subject to converted options will be 833,992 and (iii) the aggregate number of shares of New Discovery Series C common stock subject to converted options and Series C SARs will be, in the aggregate, 1,437,985. If such options and SARs were granted as a result of the merger, then 718,993 shares of New Discovery Series A convertible preferred stock and 718,993 shares of New Discovery Series C convertible preferred stock would initially be deposited with the escrow agent. Because the value of the DHC Series A common stock, the New Discovery Series A common stock, New Discovery Series B common stock and New Discovery Series C common stock may differ from the prices used in this example, the number of shares to deposited with the escrow agent may be different.

Reorganization Agreement

On June 4, 2008, DHC entered into a reorganization agreement with New Discovery, AMC, Ascent Media Group, LLC and Ascent Media Sound that provides for, among other things, the principal corporate transactions required to effect the AMC spin-off, certain conditions to the AMC spin-off and provisions governing the relationship between New Discovery and DHC on the one hand, and AMC on the other hand, with respect to and resulting from the AMC spin-off.

The reorganization agreement provides that, on or prior to the record date:

DHC will transfer to AMC, or cause its subsidiaries to transfer to AMC, all of the outstanding ownership interests in Ascent Media; and

Ascent Media Group, LLC will transfer to DHC, or one of its subsidiaries, all of the outstanding ownership interests in Ascent Media Sound.

The reorganization agreement also provides for mutual indemnification obligations, which are designed to make AMC financially responsible for substantially all liabilities that may exist relating to the business of AMC prior to the AMC spin-off, as well as for all liabilities incurred by AMC after the AMC spin-off, and to make DHC and New Discovery financially responsible for certain potential liabilities of AMC arising prior to the AMC spin-off which are not related to the business of AMC, including, for example, any liabilities arising as a result of AMC having been a subsidiary of DHC. The reorganization agreement also provides for AMC to assume all or substantially all outstanding financial obligations of DHC at the closing (other than any liabilities relating to Ascent Media Sound), which are expected to be less than all or substantially all of DHC s unrestricted cash and cash equivalents then on hand to be transferred by DHC to AMC prior to the AMC spin-off.

In addition, the reorganization agreement provides for each party to preserve the confidentiality of all confidential or proprietary information of the other parties for five years following the AMC spin-off, subject to customary exceptions, including disclosures required by law, court order or government regulation.

The reorganization agreement may be terminated, and the AMC spin-off may be abandoned, at any time prior to the date of the spin-off, by and in the sole discretion of DHC s board of directors, without the approval of DHC stockholders or anyone else.

Tax Sharing Agreement

Under the tax sharing agreement between New Discovery, DHC, AMC and other parties thereto, generally DHC will be responsible for (i) all U.S. federal, state, local and foreign income taxes attributable to DHC or any of its subsidiaries for any tax period that begins after the date of the AMC spin-off (and for any tax period that begins on or before and ends after the date of the AMC spin-off, for the portion of that period after the date of the AMC spin-off), other than such taxes arising as a result of the AMC spin-off and related internal restructuring of DHC, (ii) all taxes arising as a result of the AMC spin-off to the extent such taxes arise as a result of any breach on or after the date of the AMC spin-off of any representation, warranty, covenant or other obligation of DHC or of a subsidiary or shareholder of DHC made in connection with the issuance of the tax opinion relating to, among other things, the qualification of the AMC spin-off as a transaction under Sections 368(a) and 355 of the Code for U.S. federal income tax purposes or in the tax sharing agreement, and (iii) all taxes arising as a result of such internal restructuring of DHC to the extent such taxes arise as a result of any action undertaken after the date of the AMC spin-off by DHC or a subsidiary or shareholder of DHC. AMC will be responsible for all taxes attributable to AMC or any of its subsidiaries, whether accruing before, on or after the AMC spin-off (other than any such taxes for which DHC is responsible under the tax sharing agreement), as well as (i) all taxes attributable to DHC or any of its subsidiaries (other than Discovery) for any tax period that ends on or before the date of the AMC spin-off (and for any tax period that begins on or before and ends after the date of the AMC spin-off, for the portion of that period on or before the date of the AMC spin-off), other than such taxes arising as a result of the AMC spin-off and related internal restructuring of DHC and (ii) all taxes arising as a result of the AMC spin-off or the internal restructuring of DHC to the extent such taxes are not the responsibility of DHC under the tax sharing agreement.

Registration Rights Agreement

On or prior to the closing of the Transaction, New Discovery and Advance/Newhouse will enter into a registration rights agreement, the form of which is attached as an exhibit to the registration statement of which this proxy statement/prospectus forms a party.

Pursuant to the registration rights agreement, subject to certain limitations and restrictions, Advance/Newhouse will have the right to require New Discovery to use its reasonable efforts to register the shares of New Discovery common stock issuable upon conversion of the convertible preferred stock issued in the Transaction. Advance/Newhouse will have the right to demand up to three such registrations, subject to certain conditions. New Discovery will be responsible for customary registration expenses incurred in connection with any such registration. Subject to certain limitations and restrictions, Advance/Newhouse will have the right to assign any or all of its registration rights to any member of its stockholder group and to third parties. Any such transferee is required to agree to be bound by the registration rights agreement and such transfer is to be effected in accordance with applicable securities laws. Advance/Newhouse may effect an underwritten public offering with respect to shares included in a shelf registration statement so long as the gross proceeds to the selling holders are expected to exceed $100,000,000. Advance/Newhouse will be permitted to select one co-lead bookrunning managing underwriter for such public offering reasonably acceptable to New Discovery and New Discovery will select the remaining co-lead bookrunning managers.

Advance/Newhouse will also have piggy-back registration rights to participate in any primary or secondary offering of shares of New Discovery common stock by New Discovery, whether for its own account or for the account of any other stockholders.

The registration rights agreement also contains customary provisions relating to blackout periods and indemnification.

THE DHC INCENTIVE PLAN PROPOSAL

Background and Purpose

In connection with the 2005 spin-off of DHC by Liberty, the compensation committee of DHC adopted the DHC incentive plan. The DHC incentive plan provides the compensation committee of the DHC board with the ability to grant equity based incentive awards and certain cash awards to employees and consultants. Under the current DHC incentive plan, the aggregate number of shares with respect to which awards may be granted during the term of the DHC incentive plan is 20 million, and the aggregate number of shares with respect to which awards may be granted to a person in a single calendar year is 2 million. The DHC incentive plan has a term of 10 years, which began at its 2005 inception. New Discovery will assume the DHC incentive plan upon the consummation of the Transaction and going forward New Discovery s compensation committee will be responsible for the administration of the DHC incentive plan.

The purpose of the incentive plan proposal is to amend and restate the DHC incentive plan to increase the limits described above and to make certain clarifying changes in connection with New Discovery s assumption of the DHC incentive plan in the Transaction. Regarding the increase of the limits, it is the expectation of DHC and Advance/Newhouse, that, as a result of the Transaction, participants under the DAP and other current and future employees of Discovery will become grantees under the DHC incentive plan, thereby significantly increasing the number of grantees and outstanding awards under the DHC incentive plan and, generally, new awards under the DAP will not be made after completion of the Transaction. The terms of the future grants under the DHC incentive plan have not yet been determined (other than the grants to Mr. Hendricks contemplated by the July 29, 2008 term sheet and Mr. Singer contemplated by his employment agreement); rather, it is the expectation of DHC and Advance/Newhouse that the compensation committee of the New Discovery board will be tasked with making those determinations. In determining that the limits under the DHC incentive plan should be increased in connection with the Transaction, DHC and Advance/Newhouse also took into account that, pursuant to Mr. Hendricks term sheet, he would receive a grant of stock options under the DHC incentive plan relating to approximately 4.8 million DAP units that are vesting in 2008, thereby requiring an increase in the DHC incentive plan s per-person, per year grant cap. For a description of the term sheet relating to Mr. Hendricks awards and Mr. Singer s employment agreement, please see Management of New Discovery Executive Compensation Arrangements John Hendricks Equity Stake Transition Term Sheet and Executive Compensation Arrangements Singer Employment Agreement, respectively. DHC and Advance/Newhouse also noted that:

- New Discovery s outstanding equity will be significantly larger than DHC s due to the preferred stock issuance in the contribution;

- New Discovery will have a much larger base of potential grantees because the Discovery organization has many more employees than DHC; and

- there are 5 years remaining under the original term of the DHC incentive plan, during which time New Discovery s compensation committee may continue to grant awards thereunder.

In addition, in order to facilitate the transition of the DHC incentive plan from DHC to New Discovery and as part of the incentive plan proposal, the DHC board decided to make the following clarifying revisions to the DHC incentive plan:

to expressly provide for the creation of a subcommittee of the compensation committee to facilitate compliance with Section 16 of the Exchange Act;

to expressly provide for the ability to use stock price averages when calculating fair market value;

to expressly provide for the ability to settle SARs in cash;

to add two additional performance measures that are specifically related to the business of Discovery; and

to change the name of the DHC incentive plan

For these reasons, the DHC board and its compensation committee determined that it would seek the approval of the DHC stockholders to amend and restate the DHC incentive plan to: (i) increase the aggregate number of shares with respect to which awards may be granted during the term of the DHC incentive plan to 42 million, (ii) increase the aggregate number of shares with respect to which awards may be granted to a person in a single calendar year to 6 million, and (iii) make the clarifying revisions described above.

None of the merger proposal, the preferred stock issuance proposal or the authorized stock proposal is dependent on the approval of the incentive plan proposal. The incentive plan proposal is, however, dependent on those proposals and will not be implemented unless each of the merger proposal, the preferred stock issuance proposal and the authorized stock proposal is approved at the Annual Meeting and implemented thereafter.

DHC Incentive Plan

The following is a description of the material provisions of the DHC incentive plan, as it will apply to New Discovery. The summary which follows is not intended to be complete, and we refer you to the copy of the form of DHC incentive plan set forth as Appendix G to this proxy statement/prospectus for a complete statement of its terms and provisions.

General

Following the Transaction, the DHC incentive plan will be administered by the compensation committee of the New Discovery board or a subcommittee thereof, which we refer to in this section as the compensation committee. The New Discovery board will select the members of the compensation committee promptly following the closing of the Transaction. Each member of the compensation committee is expected to be a non-employee director within the meaning of Rule 16b-3 of the Exchange Act, and an outside director within the meaning of Section 162(m) of the Code. The compensation committee will have the full power and authority to grant eligible persons the awards described below and determine the terms and conditions under which any awards are made.

The DHC incentive plan is designed to provide additional remuneration to certain employees and independent contractors for their exceptional service and to encourage their investment in New Discovery. The DHC incentive plan is also intended to (1) attract persons of exceptional ability to become officers and employees of New Discovery, and (2) induce independent contractors to provide services to New Discovery. New Discovery s employees (including employees who are officers or directors of New Discovery or any of its subsidiaries) and independent contractors are eligible to participate and may be granted awards under the DHC incentive plan. Awards may be made to any such employee, officer or contractor whether or not he or she holds or has held awards under this plan or under any other plan of New Discovery or any of its affiliates.

The compensation committee may grant a number of awards, consisting of non-qualified stock options, SARs, restricted shares, stock units, cash awards, performance awards or any combination of the foregoing under the DHC incentive plan. The maximum number of shares of any series of New Discovery common stock with respect to which awards may be issued under the DHC incentive plan is 42 million (up from 20 million currently). With the exception of certain awards that have been accelerated, no person may be granted in any calendar year awards covering more than 6 million shares of New Discovery stock (up from 2 million currently). In addition, no person may receive payment for cash awards during any calendar year in excess of $10 million (same as the current DHC incentive plan).

Shares of common stock of New Discovery will be made available from either the authorized but unissued shares or shares that have been issued but reacquired by New Discovery. Shares of the common stock of New Discovery that are subject to (1) any award that expires, terminates or is annulled for any reason without having been exercised, (2) any award of any SARs that is exercised for cash, and (3) any award of restricted shares or stock units that shall be forfeited prior to becoming vested, will once again be available for distribution under the DHC incentive plan.

The compensation committee also has the power to:

interpret the DHC incentive plan and adopt any rules, regulations and guidelines for carrying out the DHC incentive plan that it believes are proper;

correct any defect or supply any omission or reconcile any inconsistency in the DHC incentive plan or related documents;

determine the form and terms of the awards made under the DHC incentive plan, including persons eligible to receive the awards and the number of shares or other consideration subject to awards;

provide that option exercises may be paid in cash, by check, by promissory note (subject to applicable law), in common stock, by cashless exercise, by broker-assisted exercise or any combination of the foregoing; and

delegate to any subcommittee its authority and duties under the DHC incentive plan unless a delegation would adversely impact the availability of transaction exemptions under Rule 16b-3 of the Exchange Act, and the deductibility of compensation for federal income tax purposes.

If the incentive plan proposal is approved and the Transaction is consummated, the number of individuals who will receive awards under the DHC incentive plan will vary from year to year and will depend on the determinations of the compensation committee. The compensation committee may take various factors into consideration, such as the number of promotions and the hiring needs during the year, and thus there cannot be a determination of the number of future award recipients. As of June 30, Discovery and its subsidiaries had approximately 4,000 employees, all of whom will be eligible to participate in the DHC incentive plan. The compensation committee will determine in its sole discretion which employees will receive awards under the DHC incentive plan.

Outstanding Awards

The following chart reflects awards outstanding under the DHC incentive plan, as of December 31, 2007, granted to the DHC Named Executive Officers. No awards have been granted under the DHC incentive plan to any other current executive officers, any current non-executive officer employees, or any of the DHC directors who are not also executive officers of DHC.

PLAN BENEFITS

Name and Position	**Dollar Value ($)**	**Number of Units (#) (In thousands)**
John C. Malone Chief Executive Officer and Chairman of the Board of DHC (principal executive officer)		
Robert R. Bennett President of DHC	22.90(1)	10,000(2)
David J.A. Flowers Senior Vice President and Treasurer of DHC (principal financial officer)		
Albert E. Rosenthaler Senior Vice President of DHC		
Christopher W. Shean Senior Vice President and Controller of DHC (principal accounting officer)		

Charles Y. Tanabe
Senior Vice President, General Counsel and Secretary of DHC

(1) The dollar value is assumed for this purpose to be equal to the exercise price, which is equal to the closing price of the DHC Series A common stock on the date of grant. Any value realized by the grantee will depend upon the extent to which the market price of the stock exceeds the exercise price on the date the award is exercised. These options are subject to adjustment as a result of the Transaction. See The Transaction Agreements Merger Agreement Treatment of Stock Options Options Held by Robert Bennett.

(2) Consists of options to acquire shares of Series A common stock of DHC. These options are subject to adjustment as a result of the Transaction. See The Transaction Agreements Merger Agreement Treatment of Stock Options Options Held by Robert Bennett.

None of the Discovery Named Executive Officers or any other employee of Discovery currently holds any awards under the DHC incentive plan. Any awards to be granted to them under the DHC incentive plan will be determined at the sole discretion of the compensation committee. However, John Hendricks and Brad Singer, who will serve as Chairman and Chief Financial Officer, respectively, of New Discovery have entered into arrangements pursuant to which they would be entitled to receive New Discovery stock options under the DHC incentive plan following the closing of the Transaction. For a description of these arrangements, please see Management of New Discovery Executive Compensation Arrangements John Hendricks Equity Stake Transition Term Sheet and Executive Compensation Arrangements Singer Employment Agreement, respectively. Grants under the DHC incentive plan may only be made by action of the compensation committee.

Stock Options

Non-qualified stock options entitle the holder to purchase a specified number of shares of common stock at a specified exercise price subject to the terms and conditions of the option grant. The price at which options may be exercised under the DHC incentive plan may be no less than the fair market value of a share of the applicable series of New Discovery common stock as of the day the option is granted. Options granted under the DHC incentive plan are generally non-transferable during the lifetime of an option holder, except as permitted by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

Stock Appreciation Rights

SARs entitle the recipient to receive a payment in stock (plus cash in lieu of fractional shares) or a cash payment equal to the excess value of the stock over the base price specified in the grant. A SAR may be granted to an option holder with respect to all or a portion of the shares of common stock subject to the related option (a **tandem SAR**) or granted separately to an eligible employee (a **free-standing SAR**). Tandem SARs are exercisable only to the extent that the related option is exercisable. Upon the exercise or termination of the related option, the related tandem SAR will be automatically cancelled to the extent of the number of our shares of common stock with respect to which the related option was so exercised or terminated. Free-standing SARs are exercisable at the time and upon the terms and conditions as provided in the relevant agreement. The base price of a free-standing SAR may be no less than the fair market value of a share of the applicable series of our common stock as of the day the free-standing SAR is granted. SARs granted under the DHC incentive plan are also generally non-transferable during the lifetime of a SAR holder, except as permitted by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

Restricted Shares

Restricted shares are shares of common stock of New Discovery that become vested and may be transferred upon completion of the restriction period. Restricted shares may be issued at either the beginning or end of the restriction period. Individual agreements may provide that dividend equivalents will be paid during the restriction period in the event that shares are to be issued at the end of the restriction period. An agreement under which restricted shares are issued may provide that the holder of the shares may also be paid a cash amount any time after the shares become vested. Upon the applicable vesting date, all or the applicable portion of restricted shares will vest, any retained distributions or unpaid dividend equivalents with respect to the restricted shares will vest to the extent that the restricted shares related thereto have vested, and any related cash amount to be received by the holder with respect to the restricted shares will become payable.

Stock Units

Shares of New Discovery common stock or units based upon the fair market value of New Discovery common stock may also be awarded under the DHC incentive plan. The compensation committee has the power to determine the terms, conditions, restrictions, vesting requirements and payment rules for awards of stock units.

Cash Awards

The compensation committee may also provide for the grant of cash awards. A cash award is a bonus paid in cash that is based solely upon the attainment of one or more performance goals that have been established by the compensation committee. The terms, condition and limitations applicable to any cash awards will be determined by the compensation committee.

Performance Awards

At the discretion of the compensation committee, any of the above-described awards, including cash awards, may be designated a performance award. Performance awards will be contingent upon performance measures applicable to a particular period, as established by the compensation committee, based upon any one or more of the following:

increased revenue;

net income measures (including, but not limited to, income after capital costs and income before or after taxes);

stock price measures (including, but not limited to, growth measures and total stockholder return);

price per share of common stock;

market share;

audience metrics (such as program ratings, web impressions, and subscribers);

earnings per share (actual or targeted growth);

earnings before interest, taxes, depreciation and amortization (EBITDA);

economic value added (or an equivalent metric);

market value added;

debt to equity ratio;

cash flow measures (including, but not limited to, cash flow return on capital, cash flow return on tangible capital, net cash flow and net cash flow before financing activities);

return measures (including, but not limited to, return on equity, return on average assets, return on capital, risk-adjusted return on capital, return on investors capital and return on average equity);

operating measures (including operating income, adjusted operating income before depreciation and amortization, funds from operations, cash from operations, after-tax operating income, sales volumes, production volumes and production efficiency);

expense measures (including, but not limited to, overhead costs and general and administrative expense);

margins;

stockholder value;

total stockholder return;

proceeds from dispositions;

total market value; and

corporate values measures (including ethics compliance, environmental and safety).

Such performance measures may apply to the holder, to one or more business units, divisions or subsidiaries of New Discovery or the applicable sector of the company, or to New Discovery as a whole. Goals may also be based upon performance relative to a peer group of companies. If the compensation committee intends for the performance award to be granted and administered in a manner that preserves the deductibility of the compensation resulting from such award in accordance with Section 162(m) of the Code, the performance goals must be established in writing (1) no later than 90 days after the commencement of the period of service to which the performance goals relate and (2) prior to the completion of 25% of such period of service. The compensation committee may modify or waive the performance goals or conditions to the granting or vesting of a performance award unless the performance award is intended to qualify as performance-based compensation under Section 162(m) of the Code.

Awards Generally

The awards described above may be granted either individually, in tandem or in combination with each other. Under certain conditions, including the occurrence of an approved transaction, a board change or a control purchase (all as defined in the DHC incentive plan), options and SARs will become immediately exercisable, the restrictions on restricted shares will lapse and stock units will become fully vested, unless individual agreements state otherwise. In addition, if a holder s service terminates due to death or disability (as defined in the DHC incentive plan), options and SARs will become immediately exercisable, the restrictions on restricted shares will lapse and stock units will become fully vested, unless individual agreements state otherwise. The effect of any of the foregoing events on any cash award will be prescribed in the applicable award agreement.

Fair Market Value

Under the DHC incentive plan, fair market value of a share of any series of common stock on any day means the last sale price (or, if no last sale price is reported, the average of the high bid and low asked prices) for a share of such series of common stock on that day (or, if such day is not a trading day, on the next preceding trading day) as reported on the consolidated transaction reporting system for the principal national securities exchange on which shares of such series of common stock are listed on such day, or the compensation committee can, in its sole discretion, use averages or weighted averages either on a daily basis or such longer period as complies with Code Section 409A. If for any day the fair market value of a share of the applicable series of common stock is not determinable by any of the foregoing means, then the fair market value for such day shall be determined in good faith by the compensation committee on the basis of such quotations and other considerations as the compensation committee deems appropriate.

Adjustments

The number and series of shares of New Discovery common stock which may be awarded, optioned or otherwise made subject to awards under the DHC incentive plan, the number and series of shares of common stock covered by outstanding awards and the purchase or exercise price and any relevant appreciation base with respect to any of the foregoing are subject to appropriate adjustment in the compensation committee s discretion, as the compensation committee deems equitable, in the event (1) New Discovery subdivides the outstanding shares of any series of its common stock into a greater number of shares of such series of common stock, (2) New Discovery combines the outstanding shares of any series of its common stock into a smaller number of shares of such series of common stock or (3) there is a stock dividend, extraordinary cash dividend, reclassification, recapitalization, reorganization, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase such series of common stock or any other similar corporate event (excluding approved transactions (as defined in the DHC incentive plan)).

Amendment and Termination of the DHC incentive plan

The compensation committee may terminate the DHC incentive plan at any time prior to the tenth anniversary of the date on which the DHC incentive plan became effective. The compensation committee may also suspend, discontinue, modify or amend the DHC incentive plan any time prior to the tenth anniversary of the date on which the DHC incentive plan became effective. However, before an amendment can be made that would adversely affect a participant who has already been granted an award, the participant s consent must be obtained. The DHC incentive plan became effective on May 3, 2005.

Certain U.S. Federal Income Tax Consequences

The following is a brief summary of the federal income tax aspects of awards that may be made under the DHC incentive plan based on existing U.S. federal income tax laws. This summary is general in nature and does not address issues related to the tax circumstances of any particular participant. This summary is not complete and does not attempt to describe any state, local or non-U.S. tax consequences.

Stock Options and SARs

Participants will not realize taxable income upon the grant of a non-qualified stock option or SAR. Upon the exercise of a non-qualified stock option or SAR, the participant will recognize ordinary income (subject, in the case of employees, to withholding) in an amount equal to the excess of: the amount of cash and the fair market value on the date of exercise of the common stock received over the exercise price (if any) paid for the non-qualified stock option or SAR. The participant will generally have a tax basis in any shares of common stock received on the exercise of a SAR, or on the cash exercise of a non-qualified stock option, that equals the fair market value of such shares on the date of exercise. Subject to the discussion under Certain Tax Code Limitations on Deductibility below, New Discovery will be entitled to a deduction for U.S. federal income tax purposes that corresponds as to timing and amount with the compensation income recognized by the participant.

Cash Awards; Stock Units; Restricted Shares

A participant will recognize ordinary compensation income upon receipt of cash pursuant to a cash award or, if earlier, at the time such cash is otherwise made available for the participant to draw upon it. A participant will not have taxable income upon the grant of a stock award in the form of units denominated in common stock but rather will generally recognize ordinary compensation income at the time the participant receives common stock or cash in satisfaction of such stock unit award in an amount equal to the fair market value of the common stock or cash received. In general, if an award of restricted shares is not transferable and is subject to a substantial risk of forfeiture when received, the participant will recognize ordinary compensation income in an amount equal to the fair market value of the common stock when it first becomes transferable or is no longer subject to a substantial risk of forfeiture, unless the participant makes an election to be taxed on the fair market value of the common stock when such stock is received.

An employee will be subject to withholding for federal, and generally for state and local, income taxes at the time the employee recognizes income under the rules described above with respect to common stock or cash received pursuant to a cash award, stock unit award or award of restricted shares. Dividends that are received by a participant prior to the time that the common stock is taxed to the participant under the rules described in the preceding paragraphs are taxed as additional compensation, not as dividend income. The tax basis of a participant in the common stock received will equal the amount recognized by the participant as compensation income under the rules described in the preceding paragraph, and the participant s holding period in such shares generally will commence on the date compensation income is so recognized.

Subject to the discussion under Certain Tax Code Limitations on Deductibility below, New Discovery will be entitled to a deduction for U.S. federal income tax purposes that corresponds as to timing and amount with the compensation income recognized by the participant under the foregoing rules.

Certain Tax Code Limitations on Deductibility

Section 162(m) of the Code provides that certain compensation received in any year by a covered employee in excess of $1 million is non-deductible by New Discovery for federal income tax purposes. Section 162(m) provides an exception, however, for performance-based compensation. The DHC incentive plan permits the committee appointed to administer the plan to structure grants and awards made under the DHC incentive plan to covered employees as performance-based compensation that is exempt from the limitations of Section 162(m). However, the committee may award compensation that is or may become non-deductible, and expects to consider whether it believes such grants are in the best interest of New Discovery, balancing tax efficiency with long-term strategic objectives.

Section 409A

Section 409A of the Code generally provides that any deferred compensation arrangement which does not meet specific requirements regarding (i) timing of payouts, (ii) advance election of deferrals and (iii) restrictions on acceleration of payouts will result in immediate taxation of any amounts deferred to the extent not subject to a substantial risk of forfeiture. In addition, tax on the amounts included in income as a result of not complying with the new Section 409A will be increased by an interest component as specified by statute, and the amount included in income will also be subject to a 20% excise tax. In general, to avoid a Section 409A violation, amounts deferred may only be paid out on separation from service, disability, death, a specified time, a change-in-control (as defined by the Treasury Department) or an unforeseen emergency. Furthermore, the election to defer generally must be made in the calendar year prior to performance of services, and any provision for accelerated payout other than for reasons specified by the Treasury Department may cause the amounts deferred to be subject to early taxation and to the imposition of the excise tax.

Section 409A is broadly applicable to any form of deferred compensation other than tax-qualified retirement plans and bona fide vacation, sick leave, compensatory time, disability pay or death benefits, and may apply to certain awards under the DHC incentive plan. For example, restricted stock units and stock options may be classified as deferred compensation for this purpose.

The Treasury Department and Internal Revenue Service have issued final regulations implementing Section 409A. Based on these regulations, it is expected that awards under the DHC incentive plan may be structured in a manner that complies with or is exempt from Section 409A.

Securities Authorized for Issuance Under Equity Compensation Plans

For information on the shares of DHC common stock authorized for issuance under DHC incentive plan, as of December 31, 2007, see Management of DHC Equity Compensation Plans Securities Authorized for Issuance under Equity Compensation Plans.

Vote and Recommendation

The affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of DHC common stock outstanding on the record date for the Annual Meeting and present at the Annual Meeting, in person or by proxy, voting together as a single class, is required to approve the incentive plan proposal.

The board of directors of DHC unanimously recommends that you vote FOR approval of the incentive plan proposal.

DESCRIPTION OF NEW DISCOVERY CAPITAL STOCK

The following information summarizes New Discovery s restated charter and bylaws as these documents will be in effect at the time of the closing of the Transaction.

Authorized Capital Stock

New Discovery s authorized capital stock consists of four billion (4,000,000,000) shares, of which three billion eight hundred million (3,800,000,000) shares are designated common stock, par value $0.01 per share, and two hundred million (200,000,000) shares are designated preferred stock, par value $0.01 per share.

New Discovery s common stock is divided into three series. New Discovery has authorized one billion seven hundred million (1,700,000,000) shares of Series A common stock, one hundred million (100,000,000) shares of Series B common stock, and two billion (2,000,000,000) shares of Series C common stock.

New Discovery s preferred stock is divided into two series. New Discovery has authorized seventy five million (75,000,000) shares of Series A convertible preferred stock and seventy five million (75,000,000) shares of Series C convertible preferred stock. Fifty million (50,000,000) shares of preferred stock are undesignated as to series and are issuable in accordance with the provisions of the restated charter.

By comparison to DHC s charter, New Discovery s restated charter provides for an additional 2.55 billion authorized shares of common stock and 150 million authorized shares of preferred stock. While both the DHC charter and the New Discovery restated charter provide for three series of common stock, the New Discovery charter provides for an additional 1.1 billion authorized shares of Series A common stock, an additional 50 million authorized shares of Series B common stock, and an additional 1.4 billion authorized shares of Series C common stock. The following table sets forth the estimated number of shares of each series of New Discovery common stock: (i) that will be issued in the merger; (ii) that will be reserved for issuance upon exercise of options and SARs after the merger (excluding any grants expected to be made following the closing, such as those to Messrs. Hendricks and Singer); (iii) that will be reserved for issuance upon conversion of the convertible preferred stocks to be issued to Advance/Newhouse in connection with the Transaction (including preferred shares to be placed in escrow at closing); and (iv) that will remain authorized but unissued, and not reserved for issuance, immediately following the completion of the Transaction, in each case based on the number of shares of each series of DHC common stock outstanding or underlying options on June 30, 2008:

Series of New Discovery common stock	To be issued in merger	Reserved for issuance upon exercise of options and SARs	Reserved for issuance upon conversion of convertible preferred stocks (including escrow shares)	Authorized but unissued (and not reserved for issuance) immediately following completion of the Transaction
Series A common stock	134.0 million	0.6 million	71.0 million	1,494.4 million

Series B common stock	6.6 million	0.8 million		92.6 million
Series C common stock	140.6 million	1.4 million	71.0 million	1,787.0 million

New Discovery s restated charter provides for a significant increase in the authorized number of shares of common stock of New Discovery compared to that of DHC in order to provide for the future conversion of the convertible preferred stocks to be issued to Advance/Newhouse as part of the Transaction, to ensure sufficient authorized shares in the event of a rights distribution date under the rights plan approved by the New Discovery board of directors and described under Shareholder Rights Plan below, and to provide New Discovery flexibility in the future by assuring the availability of sufficient authorized but unissued shares of common stock for a variety of valid corporate purposes, including financings, stock dividends, incentive compensation plans and mergers and acquisitions.

It should also be noted that the increase in the authorized share capital of New Discovery may discourage, delay or prevent a change in control of New Discovery. The rights plan is designed to make it significantly more difficult for an acquirer to gain control of New Discovery without the approval of the New Discovery board.

Accordingly, having a sufficient number of authorized shares available if a rights distribution date occurs increases the ability of the New Discovery board to effectively fight off an unapproved acquirer. Furthermore, having the ability to issue a large number of Series B shares without the approval of the holders of Series A or Series C shares (other than as may be required by applicable stock exchange rules) would enable the board of New Discovery to place higher voting shares in the hands of persons who are friendly to New Discovery management, thereby thwarting a takeover attempt. For more information regarding the effect of our authorized capital on a potential takeover of New Discovery, please see Anti-Takeover Effects of Provisions of the Restated Charter and Bylaws below and Risk Factors Factors Relating to New Discovery and Ownership of New Discovery Common Stock It may be difficult for a third party to acquire New Discovery, even if doing so may be beneficial to its stockholders.

Of the 150 million additional authorized shares of preferred stock, 75 million shares are designated Series A preferred stock and the remaining 75 million shares are designated Series B preferred stock. Based on the number of shares of each series of DHC common stock outstanding, or underlying options, on June 30, 2008, an estimated 71 million shares of Series A convertible preferred stock and 71 million shares of Series B convertible preferred stock will be issued to Advance/Newhouse or deposited in escrow for the benefit of Advance/Newhouse in connection with the Transaction. There are no current plans or proposals to issue any additional shares of Series A convertible preferred stock or Series C convertible preferred stock, and any such issuance would require the consent of the holders of a majority of the outstanding shares of Series A convertible preferred stock as described under Series A Convertible Preferred Stock and Series C Convertible Preferred Stock Special Class Vote Matters below. The 50 million shares of blank check preferred stock authorized in the New Discovery restarted charter is identical to the number of such shares authorized for issuance in the DHC charter.

The authorized stock proposal seeks the approval of DHC stockholders to the foregoing increase in the authorized capital stock of New Discovery compared to that of DHC. The Transaction will not be consummated unless each of the merger proposal, the preferred stock issuance proposal and the authorized stock proposal is approved by the requisite vote of DHC stockholders at the Annual Meeting.

Common Stock

The holders of Series A common stock, Series B common stock and Series C common stock have equal rights, powers and privileges, except as otherwise described below.

Voting Rights

The holders of Series A common stock will be entitled to one vote for each share held, and the holders of Series B common stock will be entitled to ten votes for each share held, on all matters voted on by stockholders, including elections of directors (other than the directors to be elected by the holders of Series A convertible preferred stock, as provided in Series A Convertible Preferred Stock and Series C Convertible Preferred Stock Series A Preferred Stock Directors below). The holders of Series C common stock will not be entitled to any voting powers, except as required by Delaware law. If the vote or consent of holders of Series C common stock is required for a matter by Delaware law, the holders of Series C common stock will be entitled to 1/100th of a vote for each share held. Subject to any preferential rights of holders of Series A convertible preferred stock and any outstanding series of New Discovery s preferred stock created by New Discovery s board from time to time, the holders of outstanding shares of Series A common stock, Series B common stock, Series A convertible preferred stock, and each series of any preferred stock entitled to vote thereon, if any, will vote as one class with respect to all matters to be voted on by stockholders of New Discovery (excluding, with respect to the holders of Series A convertible preferred stock, the election of the directors to be elected by the holders of common stock). In addition, the consent of holders of 75% of the then outstanding shares of Series B common stock, voting together as a separate class, is required for any issuance of shares of Series B common stock by New Discovery (except in limited circumstances).

Dividends

Subject to any preferential rights of any outstanding series of New Discovery s preferred stock created by New Discovery s board from time to time, the holders of New Discovery s common stock will be entitled to such dividends as may be declared from time to time by New Discovery s board from funds available therefor. Except as otherwise described under Distributions, whenever a dividend is paid to the holders of one of series of common stock, New Discovery will also pay to the holders of the other series of common stock an equal per share dividend. For a more complete discussion of New Discovery s dividend policy, please see Dividend Policy.

Conversion

Each share of Series B common stock is convertible, at the option of the holder, into one share of Series A common stock. Series A common stock and Series C common stock are not convertible.

Distributions

Distributions made in shares of Series A common stock, Series B common stock, Series C common stock or any other security with respect to Series A common stock, Series B common stock or Series C common stock may be declared and paid only as follows:

a share distribution (i) consisting of shares of Series C common stock (or securities convertible therefor) to holders of Series A common stock, Series B common stock and Series C common stock, on an equal per share basis, or (ii) consisting of (x) shares of Series A common stock (or securities convertible therefor) to holders of Series A common stock, on an equal per share basis, (y) shares of Series B common stock (or securities convertible therefor) to holders of Series B common stock, on an equal per share basis, and (z) shares of Series C common stock (or securities convertible therefor) to holders of Series C Common Stock, on an equal per share basis; or

a share distribution consisting of shares of any class or series of securities of New Discovery or any other person, other than Series A common stock, Series B common stock or Series C common stock (or securities convertible therefor) on the basis of a distribution of (1) identical securities, on an equal per share basis, to holders of Series A common stock, Series B common stock and Series C common stock; or (2) separate classes or series of securities, on an equal per share basis, to holders of Series A common stock, Series B common stock and Series C common stock; or (3) a separate class or series of securities to the holders of one or more series of New Discovery s common stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of New Discovery s common stock, *provided* that, in the case of (2) or (3) above, the securities so distributed do not differ in any respect other than their relative voting rights and related differences in designation, conversion and share distribution provision and the holders of Series A common stock, Series B common stock and Series C common stock receiving securities of the class or series such that the relative voting rights of the securities of the class or series of securities to be received by the holders of each series of common stock corresponds, to the extent practicable, to the relative voting rights of each such series of New Discovery s common stock, and *provided further* that, in each case, the distribution is otherwise made on an equal per share basis; and provided further that the holders of New Discovery Series B common stock have a consent right with respect to certain distributions of voting securities on New Discovery Series C common stock and certain distributions pursuant to which the holders of New Discovery Series B common stock would receive voting securities with lesser voting rights than those of the New Discovery Series B common stock.

New Discovery may not reclassify, subdivide or combine any series of its common stock without reclassifying, subdividing or combining the other series of its common stock, on an equal per share basis.

The foregoing distribution provisions were structured to ensure that all holders of New Discovery common stock are treated equally in a distribution, while protecting the relative voting rights associated with each of the Series A and Series B shares of New Discovery common stock. The distribution provisions permit holders of each series to receive a distribution of shares of the same series because such a distribution would not affect any series relative voting rights. The distribution provisions also permit Series C shares to be distributed to all holders of New

Discovery common stock because the relative voting power of the holders of New Discovery Series A and Series B common stock would not be diluted by a distribution of non-voting stock. However, the distribution provisions do not permit either Series A shares or Series B shares to be distributed to all holders of New Discovery common stock because the voting power of the holders of the higher voting series of stock would be diluted by the distribution of their series of voting stock to lower voting or non-voting series of stock. Lastly, the distribution provisions relating to other New Discovery securities or non-New Discovery stock replicate, to the extent practicable, the protections afforded to the various series of New Discovery common stock described above.

Liquidation and Dissolution

In the event of New Discovery s liquidation, dissolution and winding up, after payment or provision for payment of New Discovery s debts and liabilities and subject to the prior payment in full of any preferential amounts to which New Discovery s preferred stock holders may be entitled including the liquidation preference granted to holders of Series A convertible preferred stock and Series C convertible preferred stock as described in the section Series A Convertible Preferred Stock and Series C Convertible Preferred Stock Liquidation Preference below, the holders of Series A common stock, Series B common stock, Series C common stock and Series A convertible preferred stock and Series C convertible preferred stock will share equally, on a share for share basis (and in case of holders of Series A convertible preferred stock and Series C convertible preferred stock, on an as converted into common stock basis), in New Discovery s assets remaining for distribution to the holders of New Discovery s common stock.

Series A Convertible Preferred Stock and Series C Convertible Preferred Stock

The holders of New Discovery s Series A convertible preferred stock and Series C convertible preferred stock have the rights, powers and privileges described below.

General Voting Rights

In connection with any matter as to which the holders of Series A common stock and Series B common stock are entitled to vote other than the election of common stock directors, holders of Series A convertible preferred stock and, if holders of Series C common stock are entitled to vote pursuant to Delaware law, the holders of Series C convertible preferred stock, have the right to vote with holders of common stock on an as converted to common stock basis, voting together as a single class on all matters to be voted on by stockholders of New Discovery (excluding the election of common stock directors).

Special Class Vote Matters

So long as Advance/Newhouse or any of the direct or indirect subsidiaries of Advance Publications, Inc. or Newhouse Broadcasting Corporation (collectively referred to as the **ANPP Stockholder Group**) or any ANPP Permitted Transferee (as defined below) owns or has the right to vote such number of shares of Series A convertible preferred stock constituting at least 80% of the number of shares equal to the sum of (x) the number of shares of Series A convertible preferred stock issued to the ANPP Stockholder Group in the Transaction *plus* (y) the number of shares of Series A convertible preferred stock released to the ANPP Stockholder Group from escrow (such number of shares, the **Base Amount**), New Discovery s restated charter requires the consent of the holders of a majority of such shares of Series A convertible preferred stock (**Majority Holders**) before New Discovery or any of its subsidiaries can take any of the actions described below (any such action, a **Special Class Vote Matter**).

The term **ANPP Permitted Transferee** means a person (who is not a member of the ANPP Stockholder Group) that acquires record and beneficial ownership of *all* outstanding shares of Series A convertible preferred stock from one or more members of the ANPP Stockholder Group or another ANPP Permitted Transferee, provided that the shares of

Series A convertible preferred stock, Series C convertible preferred stock and New Discovery common stock beneficially owned by such transferee and its affiliates immediately following such transfer do not exceed the Maximum Amount.

The term **Maximum Amount** means a number of shares of New Discovery common stock equal to (x) 7.5% of the sum of (A) the number of shares of New Discovery common stock (including shares issuable on conversion of

Series A convertible preferred stock or Series C convertible preferred stock (other than escrow shares)) outstanding immediately following the effective time of the merger, (B) the number of shares of New Discovery common stock issuable upon conversion of Series A convertible preferred stock and Series C convertible preferred stock released to the ANPP Stockholder Group from escrow, and (C) the number of shares of New Discovery common stock issuable upon exercise of options of New Discovery, which options were converted in the merger from options to acquire shares of DHC common stock; *plus* (y) the number of shares of New Discovery common stock issuable upon conversion of the shares of Series A convertible preferred stock and Series C convertible preferred stock issued to Advance/Newhouse in the Transaction; *plus* (z) any shares of Series A convertible preferred stock and Series C convertible preferred stock released from escrow. The Maximum Amount is subject to adjustment upon certain transfers of shares of Series A convertible preferred stock or Series C convertible preferred stock (or shares of common stock issuable upon conversion thereof). The Maximum Amount will be deemed to have been exceeded if after the date shares of Series A convertible preferred stock and Series C convertible preferred stock were initially issued to Advance/Newhouse, any member of the ANPP Stockholder Group or any ANPP Permitted Transferee acquires shares of common stock or transfers shares of Series A convertible preferred stock or Series C convertible preferred stock to any third party and such transaction results in an increase in the aggregate voting power held by the ANPP Stockholder Group, ANPP Permitted Transferee, or such transferee and their respective affiliates collectively following such transaction by greater than 1% of the aggregate voting power held by the ANPP Stockholder Group immediately after the effective time of the merger. For purposes of calculating such aggregate voting power, escrow shares will be excluded, any shares of Series A convertible preferred stock released from escrow will be included, and the number of shares of New Discovery common stock issuable upon exercise of options of New Discovery outstanding immediately after the merger, will be included.

Special Class Vote Matters are:

increase in the size of the board in excess of 11 directors;

fundamental change in the business of New Discovery and its subsidiaries;

investment, joint venture or acquisition constituting a material departure from the current lines of business of New Discovery;

the material amendment, alteration or repeal of any provision of New Discovery s restated charter or bylaws (or the organizational documents of any New Discovery subsidiary);

related party transactions between New Discovery and its subsidiaries and any related party unless similar to comparable transactions with third parties or on arm s length terms;

merger, consolidation or other business combination by New Discovery into another entity other than transactions with its direct or indirect wholly-owned subsidiaries;

disposition or acquisition by New Discovery or any of its subsidiaries of any assets or properties exceeding $250 million in aggregate value or acquisition in which stock consideration is paid having voting rights superior to the voting rights of the Series A convertible preferred stock;

authorization, issuance, reclassification or recombination of any equity securities of New Discovery or its material subsidiaries other than certain specified exceptions;

action resulting in the voluntary liquidation, dissolution or winding up of New Discovery or any of its material subsidiaries;

substantial change in Discovery s service distribution policy and practices;

dividend on, or distribution to holders of, equity securities of New Discovery or any subsidiary of New Discovery subject to specified exceptions;

incurrence of indebtedness by New Discovery or any of its subsidiaries if total debt of New Discovery and its subsidiaries would exceed four times the annualized cash flow of New Discovery for the previous four consecutive quarterly periods or result in debt service for the next twelve months exceeding sixty-six percent of its annualized cash flow;

appointment or removal of the Chairman of the board or Chief Executive Officer of New Discovery;

public offering of any securities of New Discovery or any of its subsidiaries subject to certain specified exceptions; and

adoption of New Discovery s annual business plan or any material deviation therefrom.

The Special Class Vote Matters were structured to provide Advance/Newhouse with consent rights at New Discovery comparable to those Advance/Newhouse held under the limited liability company agreement of Discovery Communications Holding. The differences in the consent rights are largely attributable to New Discovery s status as a public company, as compared to Discovery Communications Holding s status as a private limited liability company. In addition, the parties sought to decrease the extent to which Advance/Newhouse held consent rights over activities of New Discovery and its subsidiaries that are ordinary course activities or, in light of the anticipated market value of New Discovery, are arguably immaterial. For example, while Advance/Newhouse had a consent right over the election or removal of the Chairman of the Board and CEO of Discovery, the chief operating officer of Discovery or of any operating division or subsidiary of Discovery and of other officers of Discovery and its subsidiaries, the Special Class Vote Matters are limited to the appointment or removal of the Chairman of the Board and CEO of New Discovery. Similarly, whereas Advance/Newhouse had a consent right over any merger or reorganization involving Discovery or any of its subsidiaries, or any sale of assets outside of the ordinary course of business, the Special Class Vote Matters are limited to mergers and business combinations involving New Discovery and sales of assets having an aggregate value in excess of $250 million. Consent rights over institution of litigation, over entrance into contracts over $1 million, over details regarding Discovery s advertising rebate plan for The Discovery Channel, and over other transactions outside the ordinary course of business have also been eliminated. Under the limited liability company agreement of Discovery Communications Holding, Advance/Newhouse had a consent right over the annual business plan, and if the members could not agree on an annual business plan there was a default mechanism that would have Discovery operate on a minimal budget. That default provision is eliminated from the Special Class Vote Matters, in the belief that a public company is required to have an approved budget.

Series A Preferred Stock Directors

The holders of the Series A convertible preferred stock will have the right to elect three members of the board of directors and two such directors must qualify as independent directors as defined by the applicable rules and regulations of Nasdaq or the SEC. The shares of common stock will not be entitled to vote in the election of such directors.

Any vacancy in the office of a preferred stock director will be filled solely by the holders of the Series A convertible preferred stock entitled to appoint such director. A preferred stock director may be removed without cause by the written consent of the holders of a majority of the then outstanding shares of the Series A convertible preferred stock and may be removed with cause (as defined in New Discovery s restated charter) upon the affirmative vote of the holders of a majority of the total voting power of the then outstanding shares of New Discovery s common stock and Series A convertible preferred stock and any other series of preferred stock entitled to vote upon the election of common stock directors voting together as a single class.

Dividends

Subject to the prior preferences and other rights of any senior stock, whenever a cash dividend is paid to the holders of New Discovery common stock, New Discovery will also pay to the holders of the Series A convertible preferred stock and Series C convertible preferred stock an equal per share cash dividend on an as converted to common stock basis.

Conversion

Each share of Series A convertible preferred stock is initially convertible, at the option of the holder, into one share of Series A common stock, subject to adjustments in such conversion rate to provide for dividends, distributions, rights or warrants granted to holders of New Discovery s common stock and any reclassification, consolidation, merger, sale or transfer or change in New Discovery s common stock. Each share of Series C convertible preferred stock is initially convertible, at the option of the holder, into one share of Series C common stock, subject to adjustments in such conversion rate to provide for dividends, distributions, rights or warrants granted to holders of New Discovery s common stock and any reclassification, consolidation, merger, sale or transfer or change in New Discovery s common stock.

Generally, each share of Series A and Series C convertible preferred stock will automatically convert into the applicable series of common stock if such share is transferred to a third party and such transfer is not a Permitted Transfer. In addition, all of the outstanding Series A and Series C convertible preferred stock will automatically convert into the applicable series of common stock at such time as the number of outstanding shares of Series A convertible preferred stock is less than 80% of the Base Amount.

Liquidation Preference

In the event of New Discovery s liquidation, dissolution and winding up, after payment or provision for payment of New Discovery s debts and liabilities and subject to the prior payment with respect to any stock ranking senior to Series A convertible preferred stock or Series C convertible preferred stock, the holders of Series A convertible preferred stock and Series C convertible preferred stock will receive, before any payment or distribution is made to the holders of any common stock or other junior stock, an amount (in cash or property) equal to $.01 per share. Following payment of such amount and the payment in full of all amounts owing to the holders of securities ranking senior to New Discovery s common stock, holders of Series A convertible preferred stock and Series C convertible preferred stock will be entitled to share ratably, on an as-converted to common stock basis, with the holders of New Discovery s common stock, as to any amounts remaining for distribution to such holders.

Series Preferred Stock

New Discovery s restated charter authorizes New Discovery s board of directors to establish one or more series of New Discovery s preferred stock and to determine, with respect to any series of New Discovery s preferred stock, the terms and rights of the series, including:

- the designation of the series;
- the number of authorized shares of the series, which number New Discovery s board may thereafter increase or decrease but not below the number of such shares then outstanding;
- the dividend rate or amounts, if any, payable on the shares and, in the case of cumulative dividends, the date or dates from which dividends on all shares of the series will be cumulative and the relative preferences or rights of priority or participation with respect to such dividends;
- the rights of the series in the event of New Discovery s voluntary or involuntary liquidation, dissolution or winding up and the relative preferences or rights of priority of payment;
- the rights, if any, of holders of the series to convert into or exchange for other classes or series of stock or indebtedness and the terms and conditions of any such conversion or exchange, including provision for adjustments within the discretion of New Discovery s board;
- the voting rights, if any, of the holders of the series;
- the terms and conditions, if any, for us to purchase or redeem the shares; and

any other relative rights, preferences and limitations of the series.

New Discovery believes that the ability of New Discovery s board of directors to issue one or more series of New Discovery s preferred stock will provide them with flexibility in structuring possible future financing and acquisitions, and in meeting other corporate needs which might arise. The authorized shares of New Discovery s preferred stock, as well as shares of New Discovery s common stock, will be available for issuance without further action by New Discovery stockholders, unless such action is subject to the approval of the holders of Series A convertible preferred stock, required by applicable law or the rules of any stock exchange or automated quotation system on which New Discovery s securities may be listed or traded. If the approval of New Discovery stockholders is not required for the issuance of shares of New Discovery s preferred stock or New Discovery s common stock, New Discovery s board may determine not to seek stockholder approval.

Although New Discovery has no intention at the present time of doing so, it could issue a series of New Discovery s preferred stock that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt. New Discovery s board of directors will make any determination to issue such shares based upon its judgment as to the best interests of New Discovery s stockholders. New Discovery s board of directors, in so acting, could issue New Discovery s preferred stock having terms that could discourage an acquisition attempt through which an acquirer may be able to change the composition of New Discovery s board of directors, including a tender offer or other transaction that some, or a majority, of New Discovery stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then-current market price of the stock.

Dividend Policy

New Discovery presently intends to retain future earnings, if any, to finance the expansion of New Discovery s business. Therefore, New Discovery does not expect to pay any cash dividends in the foreseeable future. All decisions regarding the payment of dividends by New Discovery will be made by New Discovery s board of directors, from time to time, in accordance with applicable law after taking into account various factors, including New Discovery s financial condition, operating results, current and anticipated cash needs, plans for expansion and possible loan covenants which may restrict or prohibit New Discovery s payment of dividends. Additionally, the declaration and payment of any dividends to holders of equity securities of New Discovery or any subsidiary of New Discovery (other than cash dividends payable out of current year s earnings, dividends payable in common stock or other securities of New Discovery or dividends by any wholly-owned subsidiary of New Discovery to New Discovery or its wholly-owned subsidiaries) qualifies as a Special Class Vote Matter subject to the affirmative vote of the holders of a majority of the outstanding shares of Series A convertible preferred stock.

Anti-Takeover Effects of Provisions of the Restated Charter and Bylaws

Board of Directors

New Discovery s restated charter and bylaws provide that, subject to any rights of the holders of any series of New Discovery s preferred stock to elect additional directors and rights of holders of Series A convertible preferred stock to elect Series A preferred stock directors, the number of New Discovery s directors will not be less than three and greater than fifteen directors, and the members of the board of directors of New Discovery immediately after closing will be as provided in a schedule to the Transaction Agreement. The members of New Discovery s board (other than those who may be elected by holders of New Discovery s preferred stock or Series A preferred stock directors), which we refer to as common stock directors, are divided into three classes. Each class of common stock directors consists, as nearly as possible, of a number of directors equal to one-third of the then authorized number of common stock directors. The term of office of New Discovery s Class I directors expires at the annual meeting of New Discovery stockholders in 2009. The term of office of New Discovery s Class II directors expires at the annual meeting of New Discovery stockholders in 2010. The term of office of New Discovery s Class III directors expires at the annual meeting of New Discovery stockholders in 2011. At each annual meeting of New Discovery stockholders, the successors of that class of directors whose term expires at that meeting will be elected to hold office for a term expiring at the annual meeting of New Discovery stockholders held in the third year following the year of their election. The directors of each class will hold office until their respective successors are elected and qualified.

New Discovery s restated charter provides that, subject to the rights of the holders of any series of New Discovery s preferred stock, New Discovery s common stock directors may be removed from office only for cause (as defined in

New Discovery s restated charter) upon the affirmative vote of the holders of at least a majority of the aggregate voting power of New Discovery s outstanding capital stock entitled to vote at an election of directors, voting together as a single class.

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

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

No Shareowner Action by Written Consent; Special Meetings

New Discovery s restated charter provides that, (except (i) as otherwise provided in the terms of any series of preferred stock or (ii) with respect to an action taken by the holders of Series B common stock when voting together as a separate class), any action required to be taken or which may be taken at any annual meeting or special meeting of stockholders may not be taken without a meeting and may not be effected by any consent in writing by such holders. Holders of Series A convertible preferred stock voting as a separate class on any Special Class Vote Matter or on the election or removal of Series A preferred stock directors are permitted to act by written consent. Except as otherwise required by law and subject to the rights of the holders of any series of New Discovery s preferred stock, special meetings of New Discovery stockholders for any purpose or purposes may be called only by New Discovery s Secretary at the request of at least 75% of the members of New Discovery s board then in office. No business other than that stated in the notice of special meeting will be transacted at any special meeting.

Advance Notice Procedures

New Discovery s bylaws establish an advance notice procedure for stockholders to make nominations of candidates for election as directors or to bring other business before an annual meeting of New Discovery stockholders.

All nominations by stockholders or other business to be properly brought before a meeting of stockholders will be made pursuant to timely notice in proper written form to New Discovery s Secretary. To be timely, a stockholder s notice will be given to New Discovery s Secretary at New Discovery s offices as follows:

(1) with respect to an annual meeting of New Discovery stockholders that is called for a date not more than 30 days before or 60 days after the anniversary date of the immediately preceding annual meeting of New Discovery stockholders, such notice will be given no earlier than the close of business on the 90th day prior to such anniversary and no later than the close of business on the 60th day prior to such anniversary;

(2) with respect to an annual meeting of New Discovery stockholders that is called for a date which is more than 30 days before or 60 days after the anniversary date of the immediately preceding annual meeting of New Discovery stockholders, such notice will be given no earlier than the close of business on the 100th day prior to the current annual meeting and not later than the close of business on the later of (A) the 70th day prior to the current annual

meeting or (b) the 10th day following the day on which New Discovery first publicly announces the date of the current annual meeting; and

(3) with respect to an election to be held at a special meeting of New Discovery stockholders, not earlier than the close of business on the 100th day prior to such special meeting and not later than the close of business

on the later of the 70th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting.

The public announcement of an adjournment or postponement of a meeting of New Discovery stockholders does not commence a new time period (or extend any time period) for the giving of any such stockholder notice. However, if the number of directors to be elected to New Discovery s board at any meeting is increased, and New Discovery does not make a public announcement naming all of the nominees for director or specifying the size of the increased board at least 100 days prior to the anniversary date of the immediately preceding annual meeting, a stockholder s notice will also be considered timely, but only with respect to nominees for any new positions created by such increase, if it will be delivered to New Discovery s Secretary at New Discovery s offices not later than the close of business on the 10th day following the day on which New Discovery first made the relevant public announcement. For purposes of the first annual meeting of stockholders to be held in 2009, the first anniversary date will be deemed to be September 16, 2009.

Amendments

New Discovery s restated charter provides that, subject to the rights of the holders of any series of New Discovery s preferred stock and rights of holders of Series A convertible preferred stock with respect to the Special Class Vote Matters, the affirmative vote of the holders of at least 80% of the aggregate voting power of New Discovery s outstanding capital stock generally entitled to vote upon all matters submitted to New Discovery stockholders, voting together as a single class, is required to adopt, amend or repeal any provision of New Discovery s restated charter or the addition or insertion of other provisions in the certificate, provided that the foregoing voting requirement will not apply to any adoption, amendment, repeal, addition or insertion (1) as to which Delaware law does not require the consent of New Discovery stockholders or (2) which has been approved by at least 75% of the members of New Discovery s board then in office. Subject to the rights of holders of Series A convertible preferred stock to approve the amendments of any material bylaw provisions, New Discovery s restated charter further provides that the affirmative vote of the holders of at least 80% of the aggregate voting power of New Discovery s outstanding capital stock generally entitled to vote upon all matters submitted to New Discovery stockholders, voting together as a single class, is required to adopt, amend or repeal any provision of New Discovery s bylaws, provided that the foregoing voting requirement will not apply to any adoption, amendment or repeal approved by the affirmative vote of not less than 75% of the members of New Discovery s board then in office.

Supermajority Voting Provisions

In addition to the Special Class Vote Matters and supermajority voting provisions discussed under Amendments above, New Discovery s restated charter provides that, subject to the rights of the holders of any series of New Discovery s preferred stock, the affirmative vote of the holders of at least 80% of the aggregate voting power of New Discovery s outstanding capital stock generally entitled to vote upon all matters submitted to New Discovery stockholders, voting together as a single class, is required for:

New Discovery s merger or consolidation with or into any other corporation, provided, that the foregoing voting provision will not apply to any such merger or consolidation (1) as to which the laws of the State of Delaware, as then in effect, do not require the consent of New Discovery stockholders, or (2) that at least 75% of the members of New Discovery s board of directors then in office have approved;

the sale, lease or exchange of all, or substantially all, of New Discovery s assets, provided, that the foregoing voting provisions will not apply to any such sale, lease or exchange that at least 75% of the members of New Discovery s board of directors then in office have approved; or

New Discovery s dissolution, provided, that the foregoing voting provision will not apply to such dissolution if at least 75% of the members of New Discovery s board of directors then in office have approved such dissolution.

Shareholder Rights Plan

The New Discovery board of directors has approved the adoption of a shareholder rights plan that will include the following terms and provisions. Prior to the closing of the Transaction, the Board of Directors of New Discovery will authorize and declare a dividend distribution of the preferred share purchase rights as follows to holders of New Discovery s common stock and convertible preferred stock of record as of immediately after the effectiveness of the merger (the **Record Date**):

one preferred share purchase right (which we refer to as a **Series A right**) for each share of New Discovery Series A common stock and each share of New Discovery Series A convertible preferred stock outstanding immediately after the effectiveness of the merger, which Series A right will entitle the registered holder to purchase from us one one-thousandth of a share of New Discovery Series A Junior Participating Preferred Stock, par value $0.01 per share (which we refer to as the **Series A junior preferred stock**), at a purchase price of $100.00 per one-thousandth of a share, subject to adjustment;

one preferred share purchase right (which we refer to as a **Series B right**) for each share of New Discovery Series B common stock outstanding immediately after the effectiveness of the merger, which Series B right will entitle the registered holder to purchase from us one one-thousandth of a share of Series B Junior Participating Preferred Stock, par value $0.01 per share (which we refer to as the **Series B junior preferred stock**), at a purchase price of $100.00 per one-thousandth of a share, subject to adjustment; and

one preferred share purchase right (which we refer to as a **Series C right** and, collectively with the Series A rights and Series B rights, the **rights**) for each share of New DHC Series C common stock and New Discovery Series C convertible preferred stock outstanding immediately after the effectiveness of the merger, which Series C right will entitle the registered holder to purchase from us one one-thousandth of a share of Series C Junior Participating Preferred Stock, at a purchase price of $100.00 per one-thousandth of a share, subject to adjustment.

The description and terms of the rights will be set forth in a Rights Agreement between us and Computershare Trust Company, N.A., as Rights Agent, a form of which is filed as an exhibit to the registration statement of which this proxy statement/prospectus forms a part. The following description of the rights is qualified in its entirety by reference to the Rights Agreement.

Separation and Distribution of Rights; Exercisablility. The Series A rights will be attached to all certificates (or, in the case of uncertificated shares, all book-entry notations) representing shares of New Discovery Series A common stock and New Discovery Series A convertible preferred stock then outstanding, the Series B rights will be attached to all certificates (or, in the case of uncertificated shares, all book-entry notations) representing shares of New Discovery Series B common stock then outstanding and the Series C rights will be attached to all certificates (or, in the case of uncertificated shares, all book-entry notations) representing shares of New Discovery Series C Stock and New Discovery Series C convertible preferred stock then outstanding, and no separate rights certificates will be distributed with respect to any of the rights at such time. The rights will separate from the capital stock to which it is attached on the rights distribution date, which will occur upon the earlier of:

10 days following a public announcement that a person or group of affiliated or associated persons has acquired beneficial ownership of 10% or more of the outstanding shares of New Discovery s common stock (an **acquiring person**), other than as a result of repurchases of stock by New Discovery or purchases or holdings by certain Exempt Persons; and

10 business days (or such later date as may be determined by action of New Discovery s board of directors prior to such time as any person or group of affiliated persons becomes an **acquiring person**) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in any person or group of affiliated persons becoming an acquiring person.

An Exempt Person includes Advance/Newhouse and the members of its stockholder group and any third-party transferee that acquires all of the outstanding shares of New Discovery Series A convertible preferred stock and New Discovery Series C convertible preferred stock, so long as the number of shares of common stock beneficially owned by Advance/Newhouse (including the shares of New Discovery common stock issuable upon conversion of the New Discovery convertible preferred stock) or such third party transferee does not exceed the Maximum Amount, as such amount may be adjusted under certain circumstances. Please see Description of New Discovery Capital Stock Series A Convertible Preferred Stock and Series C Convertible Preferred Stock for a summary of Maximum Amount.

Except in certain situations, a person or group of affiliated or associated persons becomes an acquiring person upon acquiring beneficial ownership of New Discovery s outstanding common stock representing in the aggregate 10% or more of the shares of New Discovery s common stock then outstanding. For purposes of the shareholder rights plan, group generally means any group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934.

The rights agreement provides that, until the rights distribution date (or earlier expiration of the rights), the rights will be evidenced by and transferred with (and only with) the New Discovery Series A common stock, New Discovery Series B common stock, New Discovery Series C common stock, New Discovery Series A convertible preferred stock and New Discovery Series C convertible preferred stock to which they are attached. Until the rights distribution date (or earlier expiration of the rights), common stock and preferred stock certificates will contain a notation incorporating the rights agreement by reference. Until the rights distribution date (or earlier expiration of the rights), the transfer of any shares of New Discovery Series A common stock, New Discovery Series B common stock, New Discovery Series C common stock, New Discovery Series A convertible preferred stock or New Discovery Series C convertible preferred stock outstanding will also constitute the transfer of the rights associated with the shares of common stock or preferred stock, as applicable, represented by such shares. As soon as practicable following the rights distribution date, separate certificates evidencing the rights related to the applicable series of common stock and preferred stock (which we refer to as right certificates) will be mailed to holders of record of New Discovery common stock and preferred stock as of the close of business on the rights distribution date and thereafter such separate right certificates alone will evidence the rights.

The rights are not exercisable unless and until a rights distribution date occurs. The rights will expire ten years after the date of the completion of the Transaction, unless such date is advanced or extended or unless the rights are earlier redeemed or exchanged by New Discovery, in each case as described below.

Anti-dilution Adjustments. The purchase price payable, and the number of shares of the applicable series of junior preferred stock or other securities or property issuable, upon the exercise of the rights will be subject to adjustment from time to time to prevent dilution:

in the event of a stock dividend on, or a subdivision, combination or reclassification of, the applicable series of junior preferred stock;

if any person acquires, or obtains the right to subscribe for or purchase the applicable junior preferred stock at a price, or securities convertible into the applicable junior preferred stock with a conversion price, less than the then current market price of the applicable junior preferred stock; or

upon the distribution to holders of the applicable series of junior preferred stock of evidences of indebtedness, cash (excluding regular quarterly cash dividends), assets (other than dividends payable in junior preferred stock) or subscription rights or warrants.

The number of outstanding rights associated with the applicable series of common stock or convertible preferred stock, as the case may be, will also be subject to adjustment in the event of a stock dividend on a series of convertible preferred stock or common stock, as the case may be, or a subdivision, consolidation or combination of the applicable series of common stock or series of preferred stock, in each case until a rights distribution date occurs.

Dividend and Liquidation Rights of the Junior Preferred Stock. No shares of any series of junior preferred stock purchasable upon exercise of the rights will be redeemable. Each share of the applicable series of junior preferred stock will be entitled, when, as and if declared, to a minimum preferential quarterly dividend payment of the greater of (1) $10 per share and (2) an amount equal to 1,000 times the dividend declared per share of New Discovery Series A common stock, Series B common stock or Series C common stock, as the case may be. In the event of the liquidation, dissolution or winding up of New Discovery, the holders of each series of junior preferred stock will be entitled in priority to the holders of common stock to a minimum preferential payment equal to the greater of (1) $10 per share (plus any accrued but unpaid dividends and distributions) and (2) an amount equal to 1,000 times the payment made per share of New Discovery Series A common stock, Series B common stock or Series C common stock, as the case may be. Each share of the applicable series of junior preferred stock will have 1,000 times the number of votes as each share of the corresponding common stock on all matters which the corresponding common stock is entitled, voting together with the applicable series of common stock. Upon any merger, consolidation or other transaction in which shares of New Discovery s Series A common stock or Series B common stock or Series C common stock are converted or exchanged, each share of the corresponding series of junior preferred stock will be entitled to receive 1,000 times the amount received per share of New Discovery s Series A common stock, Series B common stock or Series C common stock, as the case may be. These rights are protected by customary anti-dilution provisions.

Because of the nature of the dividend, liquidation and voting rights of each series of junior preferred stock, the value of the fractional share of Series A junior preferred stock purchasable upon exercise of each Series A right, the value of the fractional share of Series B junior preferred stock purchasable upon exercise of each Series B right and the value of the fractional share of Series C junior preferred stock purchasable upon exercise of each Series C right should approximate the value of one share of New Discovery Series A common stock, New Discovery Series B common stock and New Discovery Series C common stock, respectively.

Flip-in and Flip-Over Events. In the event that any person or group of affiliated or associated persons becomes an acquiring person, each holder of a Series A right (other than rights beneficially owned by the acquiring person, which will become void) will have the right to receive upon exercise of a Series A right shares of New Discovery Series A common stock, each holder of a Series B right (other than rights beneficially owned by the acquiring person, which will become void) will have the right to receive upon exercise of a Series B right shares of New Discovery Series B common stock, and each holder of a Series C right (other than rights beneficially owned by the acquiring person, which will become void) will have the right to receive upon exercise of a Series C right shares of New Discovery Series C common stock, in each case, having a market value equal to two times the exercise price of the Series A right, Series B right or Series C right, as the case may be. The events described in this paragraph are referred to as flip-in events.

In the event that, after a person or group has become an acquiring person, New Discovery is acquired in a merger or other business combination transaction or 50% or more of New Discovery s consolidated assets or earning power are sold, proper provisions will be made so that each holder of a Series A right, Series B right or a Series C right (in each case other than rights beneficially owned by an acquiring person, which will have become void) will have the right to receive upon exercise of Series A rights, Series B rights or Series C rights shares of common stock of the person with which New Discovery has engaged in the foregoing transaction (or its parent) that at the time of such transaction have a market value of two times the exercise price of the Series A right, the Series B right or the Series C right, as the case may be. The events described in this paragraph are referred to as flip-over events.

Exchange of the Rights. At any time after any person or group becomes an acquiring person and prior to the earlier of the occurrence of a flip-over event or the acquisition by such acquiring person of shares of New Discovery common stock representing 50% or more of the total number of votes entitled to be cast generally by the holders of common stock then outstanding, the board of directors of New Discovery may cause the exchange of the rights (other than the rights beneficially owned by the acquiring person, which will become void), in whole or in part, for shares of the corresponding series of common stock or junior preferred stock at an exchange ratio of one share of the corresponding series of common stock or a fractional share of junior preferred stock of equivalent value for each right, subject to adjustment.

Redemption of Rights. At any time prior to the time a person or group becomes an acquiring person, the board of directors of New Discovery may redeem the rights in whole, but not in part, at a price of $.01 per right (referred to as the redemption price), subject to adjustment, payable, at the option of New Discovery, in cash, shares of common stock or other consideration deemed appropriate by the board of directors of New Discovery. The redemption of the rights may be made effective at the time, on the basis and with the conditions as the board of directors of New

Discovery in its sole discretion may establish. Immediately upon any redemption of the rights, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the redemption price.

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

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

Certain Tax Considerations. For U.S. federal income tax purposes, the distribution by New Discovery of the rights will not be taxable to New Discovery, and the receipt of the rights which will be attached to New Discovery s common stock and convertible preferred stock will not be taxable to holders of DHC common stock. Depending upon the circumstances, holders of the rights could recognize taxable income or gain on or after the date that the rights become exercisable or in the event that the rights are redeemed by us as provided above.

Section 203 of the Delaware General Corporation Law

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

Transfer Agent and Registrar

Computershare Trust Company, N.A. will be the transfer agent and registrar for New Discovery s common stock.

COMPARISON OF THE RIGHTS OF STOCKHOLDERS OF DHC AND NEW DISCOVERY

New Discovery and DHC are each organized under the laws of the State of Delaware. Any differences, therefore, in the rights of holders of capital stock in New Discovery and DHC arise from differences in their respective charters and bylaws, in the case of DHC, as in effect on the date of this proxy statement/prospectus, and, in the case of New Discovery, as will be in effect at the effective time of the merger. Upon completion of the merger and related transactions, holders of DHC common stock will become holders of New Discovery common stock and their rights will be governed by Delaware law and New Discovery s restated charter and bylaws.

The following discussion summarizes the material differences between the rights of DHC stockholders and New Discovery stockholders, as described in the applicable provisions of their respective charters and bylaws. This section does not include a complete description of all the differences among the rights of these stockholders, nor does it include a complete description of the specific rights of these stockholders. All DHC stockholders are urged to carefully read the form of restated charter and form of bylaws of New Discovery included with this proxy statement/prospectus as Appendix D and Appendix E, respectively.

Authorized Capital Stock

DHC	New Discovery
The authorized capital stock of DHC consists of(i) 1,250,000,000 shares of common stock, par value $.01 per share, of which 600,000,000 shares are designated DHC Series A common stock, 50,000,000 shares are designated DHC Series B common stock and 600,000,000 shares are designated DHC Series C common stock and (ii) 50,000,000 shares of DHC preferred stock, par value $.01 per share. DHC s restated charter authorizes the board of directors to authorize the issuance of one or more series of preferred stock.	The authorized capital stock of New Discovery consists of (i) 3,800,000,000 shares of common stock, par value $.01 per share, of which 1,700,000,000 shares are designated New Discovery Series A common stock, 100,000,000 shares are designated New Discovery Series B common stock and 2,000,000,000 shares are designated New Discovery Series C common stock and (ii) 200,000,000 shares of New Discovery preferred stock, par value $.01 per share, of which 75,000,000 shares are designated Series A convertible preferred stock 75,000,000 shares are designated Series C convertible preferred stock and 50,000,000 shares are shares of preferred stock that are undesignated as to series. New Discovery s restated charter authorizes the board of directors to authorize the issuance of one or more series of preferred stock.

Voting Rights

DHC	New Discovery
Under DHC s restated charter, holders of DHC Series A common stock are entitled to one vote for each share of such stock held, and holders of DHC Series B common stock are entitled to ten votes for each share of such stock	The voting rights of holders of common stock of New Discovery are the same as the voting rights of holders of DHC common stock.

held, on all matters submitted to a vote of DHC stockholders at any annual or special meeting. Holders of DHC Series C common stock are not entitled to any voting powers, except as required by Delaware law (in which case holders of DHC Series C common stock are entitled to 1/100th of a vote per share).

Additionally, so long as the ANPP Stockholder Group or any ANPP Permitted Transferees holds shares of New Discovery Series A convertible preferred stock constituting at least 80% of the Base Amount, New Discovery s restated charter requires the consent of the holders of a majority of the shares of Series A convertible preferred stock with respect to any Special Class Vote Matter. Further, holders of Series A convertible preferred stock have the right to vote on the election of the Series A preferred stock directors and on all matters voted on by the holders of Series A common stock, other than the election of common stock directors. In addition, the consent of holders of 75% of the then outstanding shares of Series B common stock, voting together as a separate class, is required for any issuance of shares of Series B common stock by New Discovery (except in limited circumstances).

Cumulative Voting

DHC	New Discovery
Under Delaware law, stockholders of a Delaware corporation do not have the right to cumulate their votes in the election of directors, unless that right is granted in the charter of the corporation. DHC s restated charter does not permit cumulative voting by DHC stockholders.	Same as DHC.

Size of Board of Directors

DHC	New Discovery
DHC s board of directors has five members. DHC s restated charter provides that the minimum number of directors is three and the maximum number of directors is nine, and that the exact number of directors may be fixed by the board of directors.	New Discovery s board of directors will initially consist of eleven directors, eight of which will constitute common stock directors and three of which will constitute Series A preferred stock directors; however, the size of New Discovery s board of directors will automatically be reduced (i) by one member upon the death, resignation, removal or disqualification of the person who first serves as Chairman of the board of directors immediately following the merger and (ii) upon the holders of the Series A preferred stock ceasing to have the right to elect Series A preferred stock directors, by the number of Series A preferred stock directors then in office. New Discovery s restated charter and bylaws will provide that the minimum number of directors is three and the maximum number of directors is fifteen, and that the exact number of directors may be fixed by the board of directors.

Classes of Directors

DHC	New Discovery
DHC s restated charter provides that its board of directors is divided into three classes of directors with each class being elected to a staggered three-year term. The holders of preferred stock may be granted the right to separately elect additional directors.	New Discovery s restated charter provides that its common stock directors will be elected by holders of common stock. Common stock directors are divided into three classes of directors with each class being elected to a staggered three-year term. New Discovery s restated charter provides that holders of Series A convertible preferred stock will be entitled to elect three preferred stock directors.

Removal of Directors

DHC	New Discovery
Under DHC s restated charter, a director may be removed from office only for cause upon the affirmative vote of the holders of a majority of the aggregate voting power of the outstanding shares of DHC Series A common stock, DHC Series B common stock and any series of preferred stock entitled to vote upon matters that may be submitted to an DHC stockholder vote.	Under New Discovery s restated charter, a common stock director may be removed from office only for cause upon the affirmative vote of the holders of a majority of the aggregate voting power of the outstanding shares of Series A common stock, Series B common stock and any series of preferred stock entitled to vote upon the election of common stock directors. A preferred stock director may be removed from office (i) for cause upon the affirmative vote of the holders of a majority of the aggregate voting power of the outstanding shares of Series A common stock, Series B common stock, Series A convertible preferred stock and any series of preferred stock entitled to vote upon the election of common stock directors voting together as a single class and (ii) without cause by holders of a majority of the shares of Series A convertible preferred stock.

Vacancies on the Board of Directors

DHC	New Discovery
DHC s restated charter provides that vacancies resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on the board of directors, will be filled only by the affirmative vote of a majority of the remaining directors then in office (even though less than a quorum) or by the sole remaining director.	Same as DHC with respect to vacancies in the offices of common stock directors. Vacancies in offices of preferred stock directors will be filled by holders of Series A convertible preferred stock.

Limitation of Personal Liability of Directors

DHC	New Discovery
Under Delaware law, a corporation may include in its charter a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director; however, the provision may not eliminate or limit the liability of a director for a breach of the duty of loyalty,	Same as DHC.

acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, unlawful payments of dividends, certain stock repurchases or redemptions or any transaction from which the director derived an improper personal benefit. DHC s restated charter limits the personal liability of DHC directors for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by Delaware law.

Indemnification of Directors and Officers

DHC	New Discovery
Delaware law provides that, subject to certain limitations in the case of derivative suits brought by a corporation s stockholders in its name, a corporation may indemnify any person who is made a party to any third-party action, suit or proceeding (other than an action by or in the right of the corporation) on account of being a current or former director, officer, employee or agent of the corporation (or is or was serving at the request of the corporation in such capacity for another corporation, partnership, joint venture, trust or other enterprise) against expenses, including attorney s fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with the action, suit or proceeding through, among other things, a majority of directors who were not parties to the suit or proceeding, if the person(i) acted in good faith and in a manner reasonably believed to be in the best interests of the corporation (or in some circumstances, at least not opposed to its best interests), and (ii) in a criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. Delaware corporate law also permits indemnification by a corporation under similar circumstances for expenses (including attorneys fees) actually and reasonably incurred by such persons in connection with the defense or settlement of a derivative action or suit, except that no indemnification may be made in respect of any claim, issue or matter as to which the person is adjudged to be liable to the corporation unless the Delaware Court of Chancery or the court in which the action or suit was brought determines upon application that the person is fairly and reasonably entitled to indemnity for the expenses which the court deems to be proper. To the extent that a current or former director, officer, employee or agent is successful in the defense of such an action, suit or proceeding, the corporation is required by Delaware corporate law to indemnify such person for reasonable expenses incurred thereby. Expenses (including attorneys fees) incurred by such persons in defending any action, suit or proceeding may be paid in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of that person to repay the amount if it is ultimately determined that that person is not entitled to be so indemnified. DHC s restated charter provides for(i) the indemnification of its current or former	Same as DHC.

directors and officers to the fullest extent permitted by law, and (ii) the prepayment of expenses (including attorneys fees) upon receipt of an undertaking to repay such amounts if it is ultimately determined that the director or officer is not entitled to indemnification.

Action by Written Consent

DHC	New Discovery
DHC s restated charter specifically denies DHC stockholders the power to consent in writing, without a meeting, to the taking of any action, other than the rights of holders of DHC Series B common stock to act by written consent with respect to certain matters.	Same as DHC, but New Discovery s restated charter additionally permits the holders of Series A convertible preferred stock to act by written consent with respect to matters on which they are entitled to vote separately as a single class (e.g. for preferred directors and on Special Voting Matters).

Amendments to Certificate of Incorporation

DHC	New Discovery
DHC s restated charter requires, for the amendment, alteration or repeal of any provision of or the addition or insertion of any provision in DHC s restated charter, the affirmative vote of the holders of at least 80% of the aggregate voting power of the outstanding shares of DHC Series A common stock, DHC Series B common stock and any series of preferred stock entitled to vote upon matters submitted to a stockholder vote, unless the amendment(i) is not required to be approved by DHC stockholders under Delaware Law or (ii) has been approved by 75% of the DHC directors then in office.	New Discovery s restated charter requires, for the amendment, alteration or repeal of any provision of or the addition or insertion of any provision in New Discovery s restated charter, the affirmative vote of the holders of at least 80% of the aggregate voting power of the outstanding shares of New Discovery Series A common stock, New Discovery Series B common stock and Series A convertible preferred stock (on an as converted into common stock basis) and any series of preferred stock entitled to vote upon matters submitted to a stockholder vote, unless the amendment (i) is not required to be approved by New Discovery stockholders under Delaware Law or (ii) has been approved by 75% of the New Discovery directors then in office. Additionally, New Discovery s restated charter requires the approval of the holders of a majority of the outstanding shares of Series A convertible preferred stock for any amendment, alteration or repeal of any material provision of or the addition or insertion of any provision (other then provisions relating to filing of certificates of designations relating to preferred stock or any other amendment otherwise approved by such holders or that does not materially adversely affect the rights of Series A convertible preferred stock) therein.

Amendments to Bylaws

DHC	New Discovery
Delaware law provides that stockholders have the power to amend the bylaws of a corporation unless the charter grants such power to the board of directors, in which case either the stockholders or the board of directors may amend the bylaws. DHC s restated charter authorizes the board of directors, by the affirmative vote of not less than 75% of the directors then in office, to adopt, amend or repeal any provision of the bylaws.	Same as DHC. Additionally, New Discovery s restated charter requires the approval of a majority of holders of Series A convertible preferred stock for any amendment, alteration or repeal of any material provision of or the addition or insertion of any provision (other then provisions relating to filing of certificates of designations relating to preferred stock or any other amendment otherwise approved by such holders or that does not materially adversely affect the rights of Series A convertible preferred stock) so long as the ANPP Stockholder Group and ANPP Permitted Transferees collectively hold shares of Series A convertible preferred stock constituting 80% of the Base Amount.

Special Meetings of Stockholders

DHC	New Discovery
DHC s restated charter and bylaws provide that the secretary may call special meetings of the stockholders, only at the request of 75% of the members of the board of directors then in office.	Same as DHC.

Vote on Extraordinary Corporate Transactions

DHC	New Discovery
Under Delaware law, a sale or other disposition of all or substantially all of a corporation s assets, a merger or consolidation of a corporation with another corporation or a dissolution of a corporation requires the affirmative vote of the corporation s board of directors (except in limited circumstances) plus, with limited exceptions, the affirmative vote of a majority of the outstanding stock entitled to vote on the transaction. DHC s restated charter requires the affirmative vote of holders of at least 80% of the aggregate voting power of the outstanding shares of DHC Series A common stock, DHC Series B common stock and any series of preferred stock entitled to vote upon matters submitted to a DHC stockholder vote to	Same as DHC. Additionally, New Discovery s restated charter requires the approval of a majority of holders of Series A convertible preferred stock for (i) any merger, consolidation or other business combination by New Discovery into another entity, other than certain specified exceptions, (ii) the disposition or acquisition by New Discovery or any of its subsidiaries of any assets or properties (including stock or other equity interests of a third party) exceeding $250 million, or acquisition in which stock consideration is provided with voting rights that are senior to the voting rights of

authorize:(i) a merger or consolidation with and into any other corporation, unless(a) the laws of the state of Delaware do not require stockholder consent or(b) 75% of the members of the board of directors have approved the merger or consolidation, (ii) the sale, lease or exchange of all, or substantially all, assets of DHC, unless 75% of the members of the board of directors then in office have approved the transaction or (iii) the dissolution of DHC, unless 75% of the members of the board of directors then in office have approved the dissolution.

the Series A convertible preferred stock and (iii) any actions resulting in voluntary liquidation, dissolution or winding up of New Discovery or any of its material subsidiaries.

State Anti-Takeover Statutes

DHC	New Discovery
Subject to certain exceptions, Section 203 of the Delaware corporate statute generally prohibits public corporations from engaging in significant business transactions, including mergers, with a holder of 15% or more of the corporation s stock, referred to as an interested stockholder, for a period of three years after the interested stockholder becomes an interested stockholder, unless the charter contains a provision expressly electing not to be governed by such a section. DHC s restated charter expressly elects not to be governed by Section 203.	Same as DHC.

Notice of Stockholder Proposals and Director Nominations

DHC	New Discovery
Under DHC s bylaws, for director nominations or other business to be properly brought before an DHC annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of DHC and any such proposed business other than the nominations of persons for election to the board of directors, must constitute a proper matter for stockholder action. To be timely, a stockholder s notice must be delivered to the Secretary at the principal executive offices of DHC not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year s annual meeting (*provided, however*, that in the event that the date of the annual meeting is more than thirty (30) days before or more than seventy (70) days after such anniversary date, or if no annual meeting was held in the preceding year, notice by the stockholder must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by DHC).	Under New Discovery s bylaws, to be timely, a stockholder s notice must be delivered to the Secretary at the principal executive offices of New Discovery not later than the close of business on the sixtieth (60th) day nor earlier than the close of business on the ninetieth (90th) day prior to the first anniversary of the preceding year s annual meeting (provided, however, that (i) in the event that the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, (ii) if no annual meeting was held in the preceding year or (iii) in the case of a special meeting, notice by the stockholder must be so delivered not earlier than the close of business on the one hundredth (100th) day prior to such meeting and not later than the close of business on the later of the seventieth (70th) day prior to such meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by New Discovery).

DISCOVERY COMMUNICATIONS, INC.
UNAUDITED CONDENSED PRO FORMA COMBINED FINANCIAL STATEMENTS

In June 2008, DHC and Advance/Newhouse entered into the Transaction Agreement, which provides, among other things, for the combination of DHC s 662/3% interest in Discovery Communications Holding with Advance/Newhouse s 331/3% interest in Discovery Communications Holding, as follows:

DHC will spin-off to its shareholders AMC, a subsidiary holding cash and all of the businesses of its wholly-owned subsidiaries, Ascent Media CANS, LLC (dba AccentHealth) and Ascent Media Group, LLC, except for certain businesses of Ascent Media Group, LLC that provide sound, music, mixing, sound effects and other related services under brand names such as Sound One, POP Sound, Soundelux and Todd A-O (which businesses will remain with New Discovery following the completion of the Transaction);

Immediately following the AMC spin-off, Advance/Newhouse will contribute its interests in Discovery Communications Holding and Animal Planet to New Discovery in exchange for Series A and Series C convertible preferred stock of New Discovery that would be convertible at any time into New Discovery common stock initially representing one-third of the outstanding shares of New Discovery common stock; and

DHC will merge with a transitory merger subsidiary of New Discovery, the new holding company, and DHC s existing shareholders will receive shares of New Discovery common stock.

The merger of DHC and contribution by Advance/Newhouse of its interests in Discovery Communications Holding and Animal Planet are referred to as the Transaction.

Discovery Communications Holding was formed in the second quarter of 2007 as part of the Restructuring completed by Discovery. In the Restructuring, Discovery was converted into a limited liability company and became a wholly-owned subsidiary of Discovery Communications Holding, and the former shareholders of Discovery became members of Discovery Communications Holding. Discovery Communications Holding is the successor reporting entity to Discovery. In connection with the Restructuring, Discovery Communications Holding applied pushdown accounting, and each shareholder s basis in Discovery was pushed down to Discovery Communications Holding. The result was $4.3 billion of goodwill being recorded by Discovery Communications Holding. As goodwill is not amortizable for financial reporting purposes, there is no current impact to Discovery Communications Holding s statement of operations. Therefore, for purposes of the accompanying unaudited condensed pro forma combined statement of operations, Discovery Communications Holding s results of operations for the period prior to the Restructuring and the period subsequent to the Restructuring have been combined.

In May 2007, Discovery Communications Holding and Cox completed an exchange of Cox s 25% ownership interest in Discovery Communications Holding for a subsidiary of Discovery Communications Holding that held Travel Channel, travelchannel.com and approximately $1.3 billion in cash (the **Cox Transaction**).

The following unaudited condensed pro forma combined balance sheet dated as of March 31, 2008 assumes that the Transaction and the AMC spin-off had been completed as of such date. The following unaudited condensed pro forma combined statements of operations for the three months ended March 31, 2008 and the year ended December 31, 2007 assume that the Cox Transaction, the Transaction and the AMC spin-off had been completed as of January 1, 2007. The unaudited pro forma results do not purport to be indicative of the results that would have been obtained if the Transaction had been completed as of such date.

The information in the DHC historical, AMC historical and Discovery Communications Holding historical columns in the following unaudited condensed pro forma combined financial statements is taken from the historical financial statements of DHC, AMC and Discovery Communications Holding, respectively. The historical financial statements of DHC are incorporated herein by reference, and the historical financial statements of AMC and Discovery Communications Holding are included elsewhere herein. The financial information, including tax attributes, for Ascent Media Sound is included in the DHC historical and the New Discovery pro forma financial information.

Discovery Communications, Inc.

Unaudited Condensed Pro Forma Combined Balance Sheet
March 31, 2008

	DHC historical	Less: AMC historical(1)	Add: Discovery Communications Holding historical(1)	Pro forma adjustments for Transaction	New Discovery pro forma
	amounts in thousands				
Assets					
Cash	$ 222,577	218,625	68,654		72,606
Other current assets	191,700	180,522	1,021,658		1,032,836
Investment in Discovery	3,330,030			143,993(3) (3,474,023)(4)	
Property and equipment, net	262,744	258,512	379,125		383,357
Content rights			1,045,593	45,429(4)	1,091,022
Goodwill and other nonamortizable intangible assets	1,909,823	127,405	4,873,518	475,058(4)	7,130,994
Other intangible assets			168,036	269,138(4)	437,174
Other assets	18,964	18,099	364,753		365,618
Total assets	$ 5,935,838	803,163	7,921,337	(2,540,405)	10,513,607
Liabilities and Equity					
Current liabilities	$ 137,402	127,257	681,805		691,950
Long-term debt			4,088,607		4,088,607
Deferred tax liabilities	1,252,033	(146)	16,454	(1,252,153)(5) 117,196(4)	133,676
Other liabilities	21,830	21,081	284,156		284,905
Total liabilities	1,411,265	148,192	5,071,022	(1,134,957)	5,199,138
Minority interest			48,721		48,721
Preferred stock				143,993(3)	143,993
Common stock	2,811				2,811
Additional paid-in-capital	5,728,701	643,490	2,801,594	(2,801,594)(4) 1,252,153(5)	6,337,364
Accumulated deficit	(1,219,492)				(1,219,492)
Accumulated other comprehensive earnings	12,553	11,481			1,072
Total equity	4,524,573	654,971	2,801,594	(1,405,448)	5,265,748

Total liabilities and equity	$ 5,935,838	803,163	7,921,337	(2,540,405)	10,513,607

Discovery Communications, Inc.

Unaudited Condensed Pro Forma Combined Statement of Operations
Three Months Ended March 31, 2008

	DHC historical	Less: AMC historical(1)	Add: Discovery Communications Holding historical(1)	Pro forma adjustments for Transaction	New Discovery pro forma
		amounts in thousands, except per share amounts			
Revenue	$ 189,305	173,843	794,578		810,040
Cost of sales	(138,060)	(125,664)	(230,435)	(801)(6)	(243,632)
Selling, general and administrative expenses	(42,412)	(34,052)	(242,354)		(250,714)
Depreciation and amortization	(16,540)	(16,002)	(37,720)	(8,244)(7)	(46,502)
Gain from dispositions	78	78			
Operating income (loss)	(7,629)	(1,797)	284,069	(9,045)	269,192
Interest expense			(68,720)		(68,720)
Share of earnings of Discovery	66,402			(66,402)(8)	
Other income (expense), net	1,684	1,533	(22,590)		(22,439)
Earnings (loss) from continuing operations before income taxes	60,457	(264)	192,759	(75,447)	178,033
Income tax expense	(26,466)	116	(87,541)	33,951(9)	(80,172)
Earnings (loss) from continuing operations	$ 33,991	(148)	105,218	(41,496)	97,861
Basic and fully diluted earnings (loss) from continuing operations per common share	$ 0.12				0.23
Basic and fully diluted weighted average outstanding common shares	281,044				421,566

Discovery Communications, Inc.

**Unaudited Condensed Pro Forma Combined Statement of Operations
Year Ended December 31, 2007**

	DHC historical	Less: AMC historical(1)	Add: Discovery Communications Holding historical(1)	Pro forma adjustments for Cox Transaction(2)	Pro forma adjustments for Transaction	New Discovery pro forma
	amounts in thousands, except per share amounts					
Revenue	$ 707,214	631,425	3,127,333	(50,193)		3,152,929
Cost of sales	(491,034)	(431,367)	(1,172,907)	25,163	(3,206)(6)	(1,210,617)
Selling, general and administrative expenses	(151,448)	(129,824)	(1,310,047)	14,157		(1,317,514)
Depreciation and amortization	(67,732)	(65,544)	(156,750)	(854)	(32,974)(7)	(192,766)
Impairment of goodwill	(165,347)	(165,347)				
Gain from dispositions	704	421	134,671	(134,671)		283
Operating income (loss)	(167,643)	(160,236)	622,300	(146,398)	(36,180)	432,315
Interest expense			(248,757)	(43,100)		(291,857)
Share of earnings of Discovery	141,781				(141,781)(8)	
Other income (expense), net	16,627	10,455	(9,063)			(2,891)
Earnings (loss) from continuing operations before income taxes	(9,235)	(149,781)	364,480	(189,498)	(177,961)	137,567
Income tax expense	(59,157)	(2,640)	(77,466)	24,672	80,082(9)	(29,229)
Earnings (loss) from continuing operations	$ (68,392)	(152,421)	287,014	(164,826)	(97,879)	108,338
Basic and fully diluted earnings (loss) from continuing	$ (0.24)					0.26

operations per common share		
Basic and fully diluted weighted average outstanding common shares	280,520	420,780

Discovery Communications, Inc.

Notes to Unaudited Condensed Pro Forma Combined Financial Statements
March 31, 2008

(1) On June 4, 2008, DHC and Advance/Newhouse entered into the Transaction Agreement providing for the combination of their respective interests in Discovery Communications Holding (the direct parent of Discovery). DHC and Advance/Newhouse directly own 662/3% and 331/3% of Discovery Communications Holding, respectively. The Transaction Agreement contemplates the following steps:

DHC will spin off to its shareholders AMC, a subsidiary holding cash and all of the businesses of its wholly-owned subsidiaries, Ascent Media CANS, LLC (dba AccentHealth) and Ascent Media Group, LLC, except for certain businesses of Ascent Media Group, LLC that provide sound, music, mixing, sound effects and other related services;

Immediately following the AMC spin-off, Advance/Newhouse will contribute its interest in Discovery Communications Holding and its interest in Animal Planet to New Discovery in exchange for preferred stock of New Discovery that would be convertible at any time into New Discovery common stock initially representing one-third of the outstanding shares of New Discovery common stock; and

DHC will merge with a transitory subsidiary of New Discovery, a new holding company, and DHC s existing Series A common shareholders will receive 0.5 of a share of New Discovery Series A common stock plus 0.5 of a share of New Discovery Series C common stock, and DHC s existing Series B common shareholders will receive 0.5 of a share of New Discovery Series B common stock plus 0.5 of a share of New Discovery Series C common stock.

For financial reporting purposes, New Discovery is the successor reporting entity to DHC. Because Advance/Newhouse is a one-third owner of Discovery Communications Holding prior to the completion of the Transaction and is a one-third owner of New Discovery (whose only significant asset is 100% of Discovery Communications Holding) after completion of the transaction, there is no effective change in ownership. The convertible preferred stock will not have any special dividend rights and only a de minimus liquidation preference. Additionally, Advance/Newhouse retains significant participatory special class voting rights with respect to New Discovery parent company matters. Pursuant to FASB Technical Bulletin 85-5 and for accounting purposes, the Transaction will be treated as nonsubstantive merger, and therefore, the Transaction will be recorded at carry over basis.

Certain tax-related amounts in the AMC historical column of these unaudited condensed pro forma combined financial statements are different than the corresponding amounts in Ascent Media Group s historical combined financial statements included elsewhere herein due to differences in the assessment of the realizability of deferred tax assets and the resulting need for valuation allowances between DHC s consolidated financial statements (of which the AMC historical column is a part) and Ascent Media Group s historical combined financial statements. In this regard, certain deferred tax assets were deemed to not be realizable in the DHC historical consolidated financial statements, but were deemed to be realizable by Ascent Media on a stand-alone basis.

(2) Represents pro forma adjustments to reflect the Cox Transaction as if it had occurred on January 1, 2007 including the elimination of (i) revenue and expenses for Travel Channel for the period from January 1, 2007 through May 14, 2007 and (ii) the gain recognized by Discovery in connection with the Cox Transaction. Also includes additional interest expense for the period from January 1, 2007 through May 14, 2007 related to additional debt incurred by Discovery Communications Holding in connection with the Cox Transaction.

(3) Represents the issuance of the New Discovery preferred stock to Advance/Newhouse. As New Discovery will employ carryover-basis accounting, the convertible preferred stock is recorded at an amount equal to Advance/Newhouse s historical carrying value for its 331/3% ownership interest in Discovery Communications Holding.

(4) Represents the elimination of the historical investments in Discovery Communications Holding and Discovery Communications Holding s equity. The difference between the investment and equity represents excess basis and has been allocated preliminarily as follows (amounts in thousands).

		Useful Life
Program library	$ 45,429	15 years
Affiliate contracts	119,127	8 years
Advertising relationships	150,011	10 years
Goodwill and other nonamortizable intangible assets	475,058	indefinite
Deferred tax liability	(117,196)	
	$ 672,429	

The foregoing excess basis allocation is consistent with DHC s allocation of its equity method excess basis related to its investment in Discovery Communications Holding, and is based on estimates of the fair value of such tangible and intangible assets as compared to the underlying book value, if any, reflected in Discovery Communications Holding s historical financial statements for these assets. The fair value and useful life estimates were determined based on DHC s understanding of cable programming businesses in general and Discovery Communications Holding s business, specifically.

(5) Represents the elimination of DHC s historical deferred tax liability related to its investment in Discovery Communications Holding with an offsetting elimination to equity.

(6) Represents amortization of the program library step-up recorded in note 5.

(7) Represents amortization of the amortizable intangible assets recorded in note 5.

(8) Represents the elimination of DHC s historical share of earnings of Discovery Communications Holding.

(9) Represents the estimated income tax effects of the pro forma adjustments using an assumed tax rate of 45%. Discovery Communications Holding s 2007 effective tax rate differed from 45% due to the tax-free nature of its gains from dispositions. See note 16 to Discovery Communications Holding s consolidated financial statements for the year ended December 31, 2007 included in Part 3 of Appendix A to the proxy statement/prospectus for more information regarding Discovery Communications Holding s 2007 income taxes.

MANAGEMENT OF NEW DISCOVERY

Executive Officers and Directors

The following sets forth certain information concerning the persons who are expected to serve as New Discovery s executive officers and directors immediately following the closing of the Transaction, including their birth dates, directorships held and a description of their business experience, including positions held with New Discovery. Mr. Malone and Mr. Bennett will serve on the New Discovery board of directors regardless of whether they are re-elected as directors of DHC at the Annual Meeting. New Discovery s executive officers will consist of the current executive officers of Discovery and thus their information is included below.

Name	Position
John S. Hendricks Born March 29, 1952	Chairman and a common stock director of New Discovery. Mr. Hendricks is the Founder of Discovery and has served as Chairman of Discovery since September 1982. Mr. Hendricks served as Chief Executive Officer of Discovery from September 1982 to June 2004; and Interim Chief Executive Officer of Discovery from December 2006 to January 2007. Mr. Hendricks continues to provide leadership vision for Discovery s major content initiatives that reinforce and enhance brand and value, have long shelf life, and have global appeal. Mr. Hendricks also chairs Discovery s Global Content Committee.
David M. Zaslav Born January 15, 1960	President, Chief Executive Officer and a common stock director of New Discovery. Mr. Zaslav has served as President and Chief Executive Officer of Discovery since January 2007. Mr. Zaslav served as President, Cable & Domestic Television and New Media Distribution of NBC Universal, Inc., a media and entertainment company (**NBC**), from May 2006 to December 2006. Mr. Zaslav served as Executive Vice President of NBC, and President of NBC Cable, a division of NBC, from October 1999 to May 2006. Mr. Zaslav is a director of TiVo Inc.
Mark G. Hollinger Born August 26, 1959	Chief Operating Officer and Senior Executive Vice President, Corporate Operations, of New Discovery. Mr. Hollinger has served as Chief Operating Officer of Discovery since January 2008; and as Senior Executive Vice President, Corporate Operations of Discovery since January 2003. Mr. Hollinger served as General Counsel of Discovery from 1991 to January 2008, and as President, Global Businesses and Operations of Discovery from February 2007 to January 2008.
Bradley E. Singer. Born July 11, 1966	Senior Executive Vice President, Chief Financial Officer of New Discovery. Mr. Singer has served as Senior Executive Vice President, Chief Financial Officer of Discovery since July 2008. Mr. Singer served as Chief Financial Officer and Treasurer of American Tower Corporation from December 2001 to June 2008. Mr. Singer served as Executive Vice President, Finance of American Tower from July 2001 to December 2001, Vice President and General Manager of the Southeast Region from November 2000 to July 2001 and as Executive Vice President, Strategy, of American Tower from September 2000 until July 2001.

Joseph A. LaSala, Jr. Born November 5, 1954	Senior Executive Vice President, General Counsel and Secretary of New Discovery. Mr. LaSala has served as Senior Executive Vice President, General Counsel and Secretary of Discovery since January 2008. Mr. LaSala served as Senior Vice President, General Counsel and Secretary for Novell, Inc., a provider of enterprise software and related services, from January 2003 to January 2008.

Name	**Position**
Adria Alpert Romm Born March 2, 1955	Senior Executive Vice President, Human Resources of New Discovery. Ms. Romm has served as Senior Executive Vice President, Human Resources of Discovery since March 2007. Ms. Romm served as Senior Vice President of Human Resources of NBC from 2004 to 2007. Prior to 2004, Ms. Romm served as a Vice President in Human Resources for the NBC TV network and NBC staff functions.
Bruce L. Campbell Born November 26, 1967	President, Digital Media & Corporate Development of New Discovery. Mr. Campbell has served as President, Digital Media & Corporate Development of Discovery since March 2007. Mr. Campbell served as Executive Vice President, Business Development of NBC from December 2005 to March 2007, and Senior Vice President, Business Development of NBC from January 2003 to November 2005.
John C. Malone Born March 7, 1941	A common stock director of New Discovery. Mr. Malone has served as Chief Executive Officer and Chairman of the Board of DHC since March 2005, and a director of DHC since May 2005. Mr. Malone has served as Chairman of the Board and a director of Liberty since 1990. Mr. Malone served as Chairman of the Board of Tele-Communications, Inc. (**TCI**) from November 1996 to March 1999; and Chief Executive Officer of TCI from January 1994 to March 1999. Mr. Malone is Chairman of the Board of Liberty Global, Inc. **(Liberty Global)** and The DirecTV Group, Inc.; and a director of IAC/InterActiveCorp and Expedia, Inc.
Robert R. Bennett Born April 19, 1958	A common stock director of New Discovery. Mr. Bennett has served as President of DHC since March 2005, and a director of DHC since May 2005. Mr. Bennett served as President of Liberty from April 1997 to February 2006 and as Chief Executive Officer of Liberty from April 1997 to August 2005. Mr. Bennett held various executive positions with Liberty since its inception in 1990. Mr. Bennett is a director of Liberty and Sprint Nextel Corporation.
Paul A. Gould Born September 27, 1945	A common stock director of New Discovery. Mr. Gould has served as a director of DHC since May 2005. Mr. Gould has served as a Managing Director and Executive Vice President of Allen & Company Incorporated, an investment banking services company, for more than the last five years. Mr. Gould is a director of Liberty, Ampco-Pittsburgh Corporation and Liberty Global.
M. LaVoy Robison Born September 6, 1935	A common stock director of New Discovery. Mr. Robison has served as a director of DHC since May 2005. Mr. Robison has been executive director and a board member of The Anschutz Foundation (a private foundation) since January 1998. Mr. Robison is a director of Liberty.
J. David Wargo Born October 1, 1953	A common stock director of New Discovery. Mr. Wargo has served as a director of DHC since May 2005. Mr. Wargo has served as President of Wargo & Company, Inc., a private investment company specializing in the communications industry, since January 1993. Mr. Wargo is a director of Strayer Education, Inc. and Liberty Global.
Robert R. Beck Born July 2, 1940	A common stock director of New Discovery. Since 2001, Mr. Beck has served as an independent consultant, advising on complex financial and business matters. Prior to 2001, Mr. Beck served as a Managing Director of Putnam Investments.

Name	Position
Robert J. Miron Born July 7, 1937	A preferred stock director of New Discovery. Mr. Robert Miron has served as Chairman of Advance/Newhouse Communications and Bright House Networks, LLC (**Bright House**) since July 2002; as Chief Executive Officer of Advance/Newhouse Communications and Bright House from July 2002 to May 2008; and as President of Advance/Newhouse Communications and Bright House from April 1995 to July 2002. Mr. Robert Miron served as President of Newhouse Broadcasting Corporation from October 1986 to April 1995.
Steven A. Miron. Born April 24, 1966	A preferred stock director of New Discovery. Mr. Steve Miron was appointed as Chief Executive Officer of Advance Newhouse Communications and Bright House in May 2008. Mr. Steven Miron served as President of Advance Newhouse Communications and Bright House from July 2002 to May 2008.
Lawrence S. Kramer.. Born April 24, 1950	A preferred stock director of New Discovery. Mr. Kramer has served as senior advisor at Polaris Venture Partners, a national venture capital firm since July 2007. From January 2005 to mid 2006, Mr. Kramer served as first president of CBS Digital Media, a division of CBS Television Network (**CBS**). After that, Mr. Kramer held a consulting role at CBS until April 2008. Prior to joining CBS, Mr. Kramer was Chairman and CEO of Marketwatch, Inc., a financial news business. Mr. Kramer is a director of Answers Corporation and Xinhua Finance Media Ltd.

The executive officers named above will serve in such capacities until the annual meeting of New Discovery s board of directors following completion of the Transaction, or until their respective successors have been duly elected and have been qualified, or until their earlier death, resignation, disqualification or removal from office.

Except for Steven A. Miron being the son of Robert J. Miron, there is no family relationship among any of New Discovery s executive officers or directors, by blood, marriage or adoption.

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

Board Composition

The board of directors of New Discovery will initially consist of eight common stock directors, divided among three classes. New Discovery s Class I directors, whose term will expire at the annual meeting of its stockholders in 2009, are J. David Wargo and Robert R. Beck. New Discovery s Class II directors, whose term will expire at the annual meeting of its stockholders in 2010, are John S. Hendricks, M. LaVoy Robison and Paul A. Gould. New Discovery s Class III directors, whose term will expire at the annual meeting of its stockholders in 2011, are John C. Malone, Robert R. Bennett and David M. Zaslav. At each annual meeting of New Discovery stockholders, the successors of that class of directors whose term(s) expire at that meeting shall be elected to hold office for a term expiring at the annual meeting of New Discovery stockholders held in the third year following the year of their election. The directors of each class will hold office until their respective death, resignation or removal and until their respective successors are elected and qualified. The bylaws of New Discovery provide that the number of directors of New Discovery will be reduced by one upon the resignation, removal or disqualification of John Hendricks from the board of directors.

The board of directors of New Discovery will also include three preferred stock directors, consisting of Robert J. Miron, Steven A. Miron and Lawrence S. Kramer, whose term will expire at the annual meeting of its stockholders in 2009. Holders of New Discovery Series A convertible preferred stock will vote on the election of the preferred stock directors but will not vote on the election of any common stock director. Advance/Newhouse, as the initial holder of all the New Discovery convertible preferred stock, will appoint the three initial preferred stock directors. At each annual meeting of New Discovery stockholders, the successors of the preferred stock directors shall be elected to hold office for a term expiring at the following annual meeting of New Discovery stockholders.

The preferred stock directors will hold office until their respective death, resignation or removal and until their respective successors are elected and qualified.

Executive Compensation

New Discovery has not yet paid any compensation to any of its executive officers or any person expected to become an executive officer of New Discovery. The form and amount of the compensation to be paid to each of New Discovery s executive officers in any future period will be determined by the compensation committee of New Discovery s board of directors, subject to the terms of any applicable employment agreement.

This section sets forth the executive compensation information for the Chief Executive Officer, Principal Financial Officer and the three other most highly compensated executive officers of Discovery during the years ended December 31, 2007 and December 31, 2006. For information concerning the compensation paid to the Chief Executive Officer of DHC, Principal Financial Officer of DHC, Principal Accounting Officer of DHC and the three other most highly compensated executive officers of DHC during the years ended December 31, 2007 and December 31, 2006, see Management of DHC Executive Compensation.

Compensation Discussion and Analysis

The executive officers of New Discovery will be comprised of the current executive officers of Discovery. This Compensation Discussion and Analysis explains Discovery s compensation program for:

John S. Hendricks, Founder and Chairman of the Board of Discovery;

David M. Zaslav, President and Chief Executive Officer of Discovery;

Mark G. Hollinger, Senior Executive Vice President and Chief Operating Officer of Discovery;

Roger F. Millay, former Senior Executive Vice President and Chief Financial Officer of Discovery; and

Bruce L. Campbell, President, Digital Media & Corporate Development of Discovery.

Messrs. Hendricks, Hollinger and Campbell were Discovery s three most highly compensated executive officers for 2007, other than its CEO and CFO. These three individuals, together with Mr. Zaslav, Discovery s CEO and Mr. Millay, Discovery s former CFO, are referred to collectively herein as the **Discovery Named Executive Officers**. In January 2008, Mr. Millay indicated his intention to leave Discovery. Mr. Millay s departure date is July 25, 2008.

Bradley E. Singer, Discovery s Senior Executive Vice President, Chief Financial Officer, joined Discovery in July 2008. As a result, he was not paid compensation by Discovery for 2007. Mr. Singer s employment arrangements are described below in Executive Compensation Arrangements Singer Employment Agreement.

Decision Makers

Discovery is a member-managed limited liability company, which is currently owned, indirectly, 662/3% by DHC and 331/3% by Advance/Newhouse. Because Discovery is a private company, Discovery does not have an independent compensation committee. In addition, the compensation committee of DHC does not make compensation decisions for Discovery management. Following the completion of the Transaction, decisions regarding executive compensation will be made by a compensation committee comprised of independent New Discovery directors.

The objectives and principles of Discovery s executive compensation program have been established by Discovery s CEO and his executive management team with the approval of Discovery s Chairman and the members two designated representatives: Robert R. Bennett, President of DHC, and Robert J. Miron, Chairman of Advance/Newhouse (who we refer to as the **member representatives**). Decisions regarding the executive compensation packages paid to the Discovery Named Executive Officers, other than Messrs. Zaslav and Hendricks, are generally made by Mr. Zaslav with the review and approval of the member representatives. Decisions regarding the executive compensation packages paid to Messrs. Zaslav and Hendricks are made directly by the member representatives. See Process of Decision Making below.

Objectives

The compensation program for the Discovery Named Executive Officers is designed to meet the following objectives that align with and support Discovery s strategic business goals:

- attracting and retaining a high-performing executive management team who will help Discovery to attain its strategic objectives and build long-term company value;
- emphasizing variable performance-based compensation components by linking individual compensation with corporate operating metrics as well as individual professional achievements; and
- aligning the interests of management with the members of Discovery using equity-type incentive awards.

Following the completion of the Transaction, Discovery expects that New Discovery s compensation objectives will be determined by the New Discovery board of directors and compensation committee, although Discovery anticipates that the objectives would be consistent with the objectives identified above. As a public company, New Discovery will have more flexibility in structuring its equity-based compensation programs to better align compensation for executive officers and other employees with the company s performance.

Principles

The following principles are used to guide the design of Discovery s executive compensation program and to ensure that the program is consistent with the objectives described above:

- *Competitive Compensation*. Discovery believes that its executive compensation program must provide compensation to the Discovery Named Executive Officers that, based on general business and industry knowledge and experience, is competitive with the compensation paid to similarly situated employees of companies in Discovery s industry and companies with which Discovery competes for talent.
- *Pay for Performance Philosophy*. Discovery believes its compensation program should align the interests of the Discovery Named Executive Officers with the interests of the company and its members by strengthening the link between pay and company and individual performance. Of the total compensation mix for the Discovery Named Executive Officers during 2007, the most significant elements of each Discovery Named Executive Officer s compensation package consisted of awards under the DAP and his annual bonus award. The awards under the DAP increase in value only if the stock price of DHC increases, which depends largely on Discovery s performance. In addition, three of the Discovery Named Executive Officers bonus awards, those for Messrs. Campbell, Hollinger and Millay, were tied directly to company and individual performance measures under the Discovery Incentive Compensation Plan. In connection with attracting Mr. Zaslav to join Discovery as Chief Executive Officer, Discovery entered into an employment agreement with him under which he is entitled to minimum guaranteed annual bonuses for the original term of the agreement, and after the first year is eligible to earn additional amounts based on achievement of qualitative and quantitative performance objectives. Mr. Hendricks also receives annual bonuses based on his performance as determined by the member representatives.

Process of Decisionmaking

General. As noted above, the member representatives determine the compensation of Messrs. Zaslav and Hendricks, and Mr. Zaslav generally determines the compensation of the other named executive officers with the review and approval of the member representatives. Competitive levels of compensation for the named executive officers for

2007 were based on industry knowledge of the decision makers rather than formal benchmarking, although in the case of Mr. Millay, survey data regarding compensation of chief financial officers was also considered as more fully described in New Hires below.

<u>*New Hires*</u>. Mr. Zaslav joined Discovery in the beginning of 2007. When negotiating his compensation package, the member representatives considered their knowledge of industry compensation standards to establish the terms of a competitive compensation package with which to entice Mr. Zaslav to accept Discovery s offer of employment. The terms of Mr. Zaslav s employment agreement, which are described in Executive Compensation Arrangements Zaslav Employment Agreement below, reflect the result of these negotiations.

Messrs. Millay and Campbell joined the company in the third quarter of 2006 and early 2007, respectively. The compensation package offered to Mr. Millay was determined by Ms. Judith McHale, Discovery s Chief Executive Officer at the time, and the compensation package offered to Mr. Campbell was determined by Mr. Zaslav. In determining the compensation to offer to Mr. Millay, Ms. McHale considered, among other things, her general knowledge of industry compensation standards as well as the compensation paid to chief financial officers at other companies. The companies considered for benchmarking the compensation offered to Mr. Millay were included in two surveys, the 2006 Cable and Television Human Resource Association (**CTHRA**) Cable Programmers/Broadcast Networks Compensation Survey and the Towers Perrin 2005 Entertainment Industry Survey, in each case updated with a 4 percent annual factor. The companies in the CTHRA survey included the following: A&E Networks, ESPN, Lifetime Television, MTV Networks, Scripps Networks, Turner Broadcasting System, ABC Television Group, Disney ABC Cable Networks Group, CBS, Fox Broadcasting, and NBC Cable. The companies in the Towers Perrin survey included the following: A&E Networks, CBS, Fox Broadcasting, HBO, MTV Networks, NBC Universal, Showtime, Turner Broadcasting, DreamWorks, DreamWorks Animating, New Line Cinema, Paramount Pictures, Sony Pictures Entertainment, Twentieth Century Fox, and Warner Bros. The target pay positioning for the compensation package to be offered to Mr. Millay was the 50th percentile for base salary and the 75th percentile for total cash compensation and for total direct compensation. Subsequent to Mr. Millay s hire date but before the award date, Mr. Hendricks, with the approval of the member representatives, decided to increase the amount of Mr. Millay s award under the Discovery Appreciation Plan as described in Executive Compensation Arrangements Millay Employment Agreement; Millay Retention Agreement, below. This change did not take account of the survey data noted above.

When negotiating Mr. Campbell s compensation package, Mr. Zaslav considered his knowledge of industry compensation standards to establish the terms of a competitive compensation package with which to attract Mr. Campbell to Discovery. The member representatives approved the compensation arrangements for Messrs. Millay and Campbell based on their general industry knowledge. As was the case with Mr. Zaslav, the compensation packages ultimately paid to Messrs. Millay and Campbell were very much dependent on the negotiation process with these executives.

Mr. Hendricks. With respect to Mr. Hendricks compensation package, the member representatives work directly with Mr. Hendricks annually to construct a compensation package which fairly rewards Mr. Hendricks for his ongoing and valuable contributions to Discovery which include his leadership of major content and strategic initiatives and his focus on key priority areas such as the globalization of Discovery s programming, multi-platform distribution activities, and the monetization of Discovery s content. Mr. Hendricks also chairs Discovery s Global Content Committee and the Advisory Committee for Planet Green.

Mr. Hollinger. Mr. Zaslav determined Mr. Hollinger s 2007 compensation, with approval of the member representatives, taking into account the extensive responsibilities assumed by Mr. Hollinger during 2007. In recognition of his assumption of certain new responsibilities, leadership and strong performance, Mr. Hollinger was promoted to the position of Senior Executive Vice President and Chief Operating Officer of Discovery effective January 1, 2008.

Elements of Compensation

A summary of each element of the compensation program for the Discovery Named Executive Officers is set forth below. Discovery believes that each element complements the others and that together they serve to achieve Discovery s compensation objectives.

Base Salary

Discovery provides base salaries that it believes are competitive to attract and retain high-performing executive talent. Discovery believes that a competitive base salary is an important component of compensation as it provides a degree of financial stability for executives. Base salaries also form the basis for calculating other compensation opportunities for the Discovery Named Executive Officers, including, for example, the metrics for each Discovery Named Executive Officer s Incentive Compensation Plan award and the amount of life insurance provided by Discovery. The base salary level of each Discovery Named Executive Officer is generally determined based on the responsibilities assumed by him; his experience, overall effectiveness and demonstrated leadership ability; the performance expectations set for him; and the decision makers understanding of competitive market factors.

Mr. Hendricks is the founder of Discovery. In recognition of the valuable strategic guidance, long range planning and years of industry experience that Mr. Hendricks continues to contribute to the business and priorities of Discovery in his role as Chairman, Mr. Hendricks s base salary has been fixed at $1 million per year pursuant to long-standing resolutions of the members. For information regarding Mr. Hendricks compensation package following the closing of the Transaction, please see Executive Compensation Arrangements John Hendricks Equity Stake Transition Term Sheet and Employment Letter below.

When Mr. Zaslav joined Discovery in the beginning of 2007, his base salary was determined based on the member representatives knowledge of market rates for an executive with his breadth of experience and demonstrated leadership skills. As CEO, he would have overall responsibility for the entire company s strategic growth objectives, the editorial and creative direction across brand groups, the organizational redesign of Discovery s senior management team, and the investment priorities for Discovery s underperforming assets and was, accordingly, given the highest salary of any Discovery executive officer.

When Mr. Millay joined Discovery in the third quarter of 2006, his base salary was determined, in part, based on market rates for a chief financial officer with his level of financial expertise. As CFO, he would have significant oversight responsibilities with respect to the accounting and financial condition of the company and was granted a salary commensurate with those responsibilities. Since Mr. Millay joined the company in the third quarter of 2006, his salary carried over to 2007 without change. As noted above, Mr. Millay is departing from Discovery effective July 25, 2008. Discovery entered into a Retention Agreement with Mr. Millay providing for a retention payment, salary pending his departure, treatment of his incentive compensation for 2007 and 2008, treatment of his Discovery Appreciation Units and other matters, which is described in Executive Compensation Arrangements Millay Employment Agreement; Millay Retention Agreement below.

Mr. Hollinger s salary increased 39% in 2007 in recognition of his extensive contributions to the company as Senior Executive Vice President and General Counsel of Discovery and the increase in responsibilities associated with his new post as head of the International Networks and Commerce divisions.

Mr. Campbell joined Discovery in 2007. His base salary reflected Mr. Zaslav s understanding of market rates for a network executive with his level of experience, taking into account the need to build a Corporate Development organization, restructure Discovery s digital media staff and infrastructure, and establish new investment priorities and overall growth strategy for Discovery across operating units.

Bonus

Annual. The Discovery Named Executive Officers, other than Messrs. Hendricks and Zaslav, participate in Discovery s Incentive Compensation Plan (the **ICP**), which provides for annual bonuses based on company and individual performance. The ICP is a performance-based compensation program designed to focus the Discovery Named Executive Officers (other than Messrs. Hendricks and Zaslav, who do not participate in the ICP) on achieving annual operating performance goals on a corporate level and with respect to any individual business lines over which he is responsible, as well as on achieving individual professional goals. See Incentive Plan Compensation below for more information regarding this plan.

Under his employment agreement, Mr. Zaslav is entitled to minimum, guaranteed annual bonuses for the original term of the agreement. Subject to the achievement of certain qualitative and quantitative objectives, after the first year of employment, Mr. Zaslav may earn an actual bonus in excess of the guaranteed bonus amount applicable to a particular year. For 2007, his guaranteed and actual bonus amount was $3 million. For 2008, his minimum, guaranteed bonus amount is $2 million and his target bonus amount is $3 million. In determining the amount and terms of Mr. Zaslav s bonus, the member representatives considered the substantial payments that Mr. Zaslav would forego at his previous employer and Mr. Zaslav s experience and demonstrated leadership skills. Under the terms of Mr. Zaslav s employment agreement and subject to his right to receive minimum annual bonuses outlined therein, the amount of his annual bonus will depend on the achievement of qualitative and quantitative objectives established by the compensation committee in consultation with Mr. Zaslav. For more information regarding Mr. Zaslav s employment agreement, see Executive Compensation Arrangements Zaslav Employment Agreement below.

During the first quarter of each year, the member representatives work with Mr. Hendricks to determine an appropriate bonus amount for Mr. Hendricks prior year contributions to Discovery. For 2006, Mr. Hendricks was granted a bonus of $1.875 million in recognition of his services as Interim CEO prior to Mr. Zaslav s arrival and of his successful recruitment of Mr. Zaslav. For 2007, Mr. Hendricks received a $500,000 bonus due to his fewer responsibilities following the arrival of Mr. Zaslav.

Signing. Discovery pays signing bonuses to certain executives upon their joining the company. Market conditions often dictate when a signing bonus will be necessary to attract a qualified candidate and the size thereof. Discovery paid an aggregate signing bonus to Mr. Zaslav of $2.5 million to induce him to forego his then-current and prospective leadership roles at his former employer. The signing bonus was paid in two tranches: he received the first $1.5 million upon joining Discovery in 2007 and the balance was paid in early 2008 based on Mr. Zaslav remaining with the company through the end of 2007.

Incentive Compensation Plan

Under the ICP, all qualifying employees, including the Discovery Named Executive Officers (other than Messrs. Hendricks and Zaslav, who do not participate in the ICP), are eligible to receive annual cash payments based on the extent to which pre-established Discovery as a whole and, if applicable, line of business, operational goals are achieved, and an assessment of the performance of such employees, including in the case of the participating Discovery Named Executive Officers, an assessment by Mr. Zaslav. The amounts payable under the ICP are based on certain pre-established performance metrics, which in the case of the participating Discovery Named Executive Officers for 2007 were tied 60% to adjusted operating cash flow and 40% to net revenue of Discovery as a whole and any applicable line of business. Discovery established in the first quarter of 2007 for each of these metrics a minimum amount below which no payment would be made relating to such metric, an amount where participants would be paid their entire targeted bonus relating to such metric and an overachievement amount which serves as a ceiling where higher payments would only be made relating to such metric at Discovery s discretion, and in between the minimum and the overachievement amounts, the amount payable would be increased or decreased in accordance with a pre-established scale.

The aggregate amount payable to an individual under his annual award for 2007 was determined by:

- first, determining the target bonus of each employee, which is equal to a pre-established percentage of his base salary (for the target bonus of each Discovery Named Executive Officer participating in the ICP, please refer to the Grants of Plan Based Awards table below).

- second, establishing the amount payable pursuant to the achievement of Discovery as a whole and any applicable line of business performance measures (which as noted above is based on adjusted operating cash flow and net revenue with respect to the Discovery Named Executive Officers participating in the ICP); and

- then, multiplying that amount by an individual multiplier (ranging from 0 to 1.5) that is reflective of the individual s performance classification.

The calculation of the amount of an ICP award for 2007 was as follows: [(target bonus x percentage of bonus tied to Discovery as a whole x percentage based on achieving Discovery as a whole based performance metrics) + (target bonus x percentage of bonus tied to line of business x percentage based on achieving line of business performance metrics)] x individual performance multiplier.

The determination of what portion of the bonus of a participating Discovery Named Executive Officer would be based on the performance of Discovery as a whole and/or any applicable line of business was made in the first quarter of 2007 by Mr. Zaslav and approved by the member representatives with the goal of linking each such officer s bonus to the portions of Discovery for which he has responsibility, whether Discovery as a whole and/or a line of business. Mr. Hollinger s corporate performance measure for 2007 was divided as follows: 40% Discovery as a whole; 40% Discovery Networks International; and 20% Commerce. Mr. Campbell s corporate performance measure for 2007 was divided as follows: 60% Discovery as a whole; 20% U.S. Networks; and 20% Emerging

Networks. For ICP purposes, Emerging Networks consists of Investigation Discovery, HD Theater and Military Channel. Mr. Millay s corporate performance measure for 2007 was based 100% on Discovery as a whole, since as Chief Financial Officer, he was responsible for the overall organization.

Discovery management decided to use net revenue and adjusted operating cash flow targets to determine whether bonuses would be paid under the ICP to each participating Discovery Named Executive Officer because it believes that net revenue is an important indicator of the overall growth and strength of the business and adjusted operating cash flow is an important measure of Discovery s profitability. Since Discovery s profitability is viewed as the most important indicator of operating performance, adjusted operating cash flow was weighted more heavily than net revenue for purposes of 2007 ICP awards.

Operating cash flow amounts were adjusted to eliminate items that affected the measure but, in the view of Discovery s management, were not indicative of performance. Discovery s management exercised discretion in determining the adjustments to operating cash flow for purposes of the ICP. For 2007, the significant items that were added back to adjusted operating cash flow for Discovery and the lines of business used for ICP purposes were the following: content impairment in U.S. Networks of $129 million and content and certain charges in Education of $12 million. For Discovery Networks International, adjusted operating cash flow for ICP purposes excludes the results of Antenna Audio as well as Discovery Networks International s allocable share of corporate expenses.

The performance targets for Discovery as a whole and the lines of business (other than Commerce and Emerging Networks) that were applicable to Messrs. Campbell, Hollinger and Millay are set forth in the following table:

Summary of 2007 ICP Targets

Business Unit	**Threshold**	**Target**	**Over Achievement**	**Actual Results**
		($ Millions)		
Net Revenue				
Discovery Communications, LLC	2,847.5	2,997.4	3,147.3	3,127.3
Discovery Networks International	837.9	931.0	1,024.1	985.0
US Networks	1,815.0	1,910.5	1,986.9	1,972.3
Adjusted Operating Cash Flow				
Discovery Communications, LLC	732.9	771.5	888.8	886.4
Discovery Networks International	131.4	146.0	186.2	212.7
US Networks	730.2	768.7	839.7	793.6

Targets for Commerce were adjusted during 2007 to reflect the continuing business after Discovery ceased to operate the Discovery Channel Stores. The adjusted targets for Commerce set forth quantitative measures that required the continuing business to operate at a profit, which Commerce had not achieved in prior years. Commerce achieved these targets based on the continuing business achieving a positive adjusted operating cash flow in 2007.

Targets for Emerging Networks set forth quantitative measures that required that the three networks increase revenue by at least 30% in the aggregate in 2007, compared to 2006, while maintaining the level of adjusted operating cash flow in 2007, at least at the 2006 level. Emerging Networks achieved these goals.

The determination as to whether the 2007 corporate performance measures were met was made during the first quarter of 2008 following the conclusion and review of the full-year 2007 results of operations. Individual performance classifications were then determined as described above and final bonus amounts were approved for payment to such Discovery Named Executive Officers. As the member representatives had approved the terms of the 2007 ICP awards in the beginning of 2007, no separate approval by the member representatives was required at this time. Please refer to the Estimated Future Payouts Under Non Equity Incentive Plan Awards column of the Grants of Plan Based Awards Table for more information regarding the range of 2007 payouts available to Messrs. Campbell, Hollinger and Millay and the Non-Equity Incentive Plan Compensation column of the

Summary Compensation Table for the actual amounts paid to those executives with respect to their 2007 ICP awards.

The ICP bonus payments made to each of the participating Discovery Named Executive Officers under the ICP for 2007 reflected the performance of the operations over which the Discovery Named Executive Officer had responsibility and, in the case of Mr. Hollinger and Mr. Campbell, the individual performance of the Discovery Named Executive Officer as determined by Mr. Zaslav. Mr. Hollinger s ICP bonus reflected the strong performance of Discovery as a whole and Discovery Networks International, as shown in the table above, as well as Mr. Hollinger s exceptional performance in 2007. Mr. Campbell s ICP bonus reflected the strong performance of Discovery as a whole and U.S. Networks, and Emerging Networks achievement of its goals as described above, as well as Mr. Campbell s exceptional performance in 2007. In January 2008 before ICP awards were determined, Mr. Millay advised that he would be leaving Discovery. As noted above, in connection with agreeing upon the terms of his retention agreement, which governed Mr. Millay s compensation prior to and following his departure from Discovery, the parties decided that Mr. Millay would be assigned an agreed upon performance classification for 2007 rather than undertaking the regular performance review. As a result, Mr. Millay s ICP bonus payment for 2007 reflects the strong performance of Discovery as a whole, but does not reflect an assessment of his individual performance.

Discovery Appreciation Program

Generally. The DAP is a long-term incentive plan designed to reward Discovery employees at the level of Director and above for increases in the market value of the Series A common stock of Discovery s indirect member, DHC. Upon joining the company or, in some cases, being promoted within the company, each qualifying employee receives a DAP award. These awards consist of a number of units which represent an equivalent number of shares of DHC Series A common stock and a base price which is determined based on 110% of the average of the closing stock prices of the DHC Series A common stock on the Nasdaq Global Select Market over the 10 trading days immediately preceding and including the grant date and the 10 trading days immediately following the grant date. Each award vests as to 25% of the units on each of the four anniversaries of the date of grant. With respect to all DAP awards granted in 2007, on each vesting date, if the recipient is employed by Discovery or any of its subsidiaries, the recipient will be entitled to receive a cash payment equal to product of (x) the number of units that vested on that date, multiplied by (y) the spread between the base price and 110% of the average of the closing stock prices of the DHC Series A common stock on the Nasdaq Global Select Market over the 10 trading days immediately preceding and including the vesting date and the 10 trading days immediately following the vesting date.

Unlike the 2007 DAP awards, DAP awards granted in 2005 and 2006 were subject to a multi-year payment cycle, whereby the recipient would not be paid for a vested tranche of units on the vesting date, rather the recipient would be paid for (i) the first tranche of units on the one year anniversary of the vesting date of such tranche, (ii) the second tranche of units on the second year anniversary of the vesting date of such tranche, (iii) the third tranche of units on the third anniversary of such vesting date and (iv) the fourth tranche of units on the fourth anniversary of such vesting date. The payment made to the recipient would equal the product of (x) the number of units in the tranche for which payment is due, multiplied by (y) the spread between the base price and 110% of the average of the closing stock prices of the DHC Series A common stock on the Nasdaq Global Select Market over the 10 trading days immediately preceding and including the applicable anniversary date and the 10 trading days following the applicable anniversary. The 2005 and 2006 awards have been amended, such that, beginning in 2008, all participants in the DAP will receive payment upon vesting and the payment amount will be determined in the same manner as it is determined for the 2007 awards. These amendments were intended to create more competitive compensation packages for the participants, as it was believed that the multi-year payment cycle created too long a period between vesting and cash-in-hand.

The DAP provides that on termination of employment for cause (as defined in the DAP), a participant s units, whether vested or unvested, are forfeited. If a participant voluntarily or involuntarily (other than for cause) terminates employment other than for death, disability or retirement, all unvested units are forfeited. In the case of the participant s voluntary termination of employment other than for retirement, 100% of the value of vested units will be paid if the participant signs a general release that includes a covenant not to compete and abides by such agreements as provided in the DAP, and, if not, only 75% of the value of the vested units will be paid. If a participant is involuntarily terminated other than for cause, the participant would be paid for all vested DAP units. Vesting of 100% of units generally is accelerated in the event that (1) a participant dies, becomes disabled, or retires, (2) a participant s employment is terminated other than for cause within twelve months of a change in control (as defined in the DAP), or (3) the DAP is terminated. Under the DAP, a participant may retire and qualify for accelerated vesting, in general, after attainment of age 62 with five years of service. Also, in the event that the DAP is terminated and a long-term incentive plan providing comparable benefits to participants (as determined in the member representatives reasonable discretion) is not offered in lieu of the DAP, amounts payable for vested DAP awards would be increased to 125% of the amount otherwise payable pursuant to the DAP.

The DAP s provisions for vesting or forfeiture of units on termination of employment in various circumstances as described above govern the DAP units awarded to the Discovery Named Executive Officers unless otherwise provided in employment or other agreements with them. Please see Executive Compensation Arrangements and Potential Payments Upon Termination or Change-in-Control below for a description of these agreements.

It has been the practice of Discovery under the DAP that, subject to the absence of any performance issues on the part of the applicable participant except with respect to Mr. Zaslav as described below, each participant receives a replenishment award on each vesting date, pursuant to which he will receive a new award of a number of units equal to the number of units that vested on that vesting date. Such vesting date becomes the grant date of the corresponding replenishment award. Each replenishment award has a base price determined based on 110% of the average of the closing stock prices of the DHC Series A common stock on the Nasdaq Global Select Market over the 10 trading days immediately preceding and including the grant date of the replenishment award and the 10 trading days immediately following such grant date. Replenishment awards are otherwise granted subject to the same terms and conditions as the award that vested triggering the grant of the replenishment award. Discovery adopted this practice as a means of continuing to emphasize the link between individual compensation and company performance. Additionally, this practice coupled with the adoption of the payment upon vesting schedule enabled Discovery to maintain a cap on the number of units outstanding at any given time (subject only to increase for new hires or promotions).

The DAP is consistent with Discovery s pay for performance principles because these awards are designed to focus the attention of executives on achieving operational goals and increasing company value over time, which in turn aligns the interest of executives with Discovery s members. Because Discovery was not a public company, Discovery could not make grants tied directly to its own stock performance. Accordingly, the DAP was designed to replicate, as closely as possible, an equity-type incentive award program. Because DHC indirectly owns 2/3 of the membership interests in Discovery and DHC s interest in Discovery accounts for a significant portion of DHC s market value, DHC s stock price was chosen as the basis for the DAP awards.

The size of the DAP awards for executive officers (other than Messrs. Hendricks and. Zaslav) are generally determined by Mr. Zaslav in conjunction with the setting of their overall compensation package. As Mr. Zaslav had not yet assumed his role as CEO at the time awards were made to Mr. Millay upon his joining the company, his DAP award was determined by Ms. McHale, the Chief Executive Officer at the time, with the approval of the member representatives, in conjunction with the setting of his overall compensation package. Subsequent to Mr. Millay s hire date but before the award date, Mr. Hendricks, with the approval of the member representatives, decided to increase the amount of Mr. Millay s award under the Discovery Appreciation Plan as described in Executive Compensation Arrangements Millay Employment Agreement; Millay Retention Agreement, below. Mr. Zaslav determined the amount of Mr. Campbell s DAP award, with the approval of the member representatives. In determining the amount of Mr. Campbell s award, Mr. Zaslav took into account the size of other grants within Discovery and the substantial longer-term pension and other benefits that Mr. Campbell would be sacrificing by leaving his previous employer. Mr. Zaslav also considered Mr. Campbell s status and future prospects at his previous employer, and believed that a substantial grant would be required to persuade Mr. Campbell to make the move to Discovery.

The member representatives determined that Mr. Zaslav would receive 4 million units in connection with his joining Discovery as a part of the negotiations of his employment agreement. The size of the grant was determined by the member representatives in order to ensure that Mr. Zaslav has a substantial stake in Discovery s success in order to align his interest with the interest of Discovery and its members. As noted in his employment agreement, this grant was intended to be roughly equivalent to an interest of 0.794% in the appreciation in the value of Discovery and this level of participation is to be maintained through the award of replenishment grants as his vested units are paid out under the DAP. The grant Mr. Zaslav received upon joining the company was not priced consistent with the DAP mechanism described above. Rather, under his employment agreement, Mr. Zaslav received a DAP award with respect to 4 million units at a base price equal to 110% of the closing stock price of the DHC Series A common stock on December 29, 2006, the last trading day prior to his January 1, 2007 grant date. Given the size of Mr. Zaslav s grant, he and the member representatives selected these pricing terms in order to ensure that his base price was not lower than the closing stock price on his grant date (which can sometimes occur under the existing pricing mechanism described above).

Given Mr. Hendricks long-standing tenure with Discovery since the time of his founding of the company in 1982, he has a current DAP awards balance that is reflective of his unique contribution to the creation and expansion of Discovery from a start-up company to a clear leader in the industry during the course of Discovery s 25-year history as a private company. Mr. Hendricks DAP grant holdings represent his continued participation in approximately 1.3% of Discovery s appreciation, which the Discovery members continue to maintain through their award of replenishment grants as his vested DAP units are paid out under the DAP. Although Mr. Hendricks has not received any new DAP grants during the past two years, he has continued to receive his replenishment awards. Mr. Hendricks DAP units are subject to special rules regarding forfeiture or rescission, as set forth in an agreement between Mr. Hendricks and Discovery s stockholders entered into in 2004. See Executive Compensation Arrangements John Hendricks Employment Arrangements with Discovery below for a description of these provisions. In connection with the closing of the Transaction, the member representatives determined to amend Mr. Hendricks existing DAP arrangements. Pursuant to a term sheet entered into between Mr. Hendricks and the member representatives on July 29, 2008, Mr. Hendricks DAP awards will continue to vest post-closing of the Transaction, but, in lieu of any replenishment awards, Mr. Hendricks will receive stock options under the DHC incentive plan. For more information regarding this term sheet, see Executive Compensation Arrangements John Hendricks Equity Stake Transition Term Sheet below. Mr. Hendricks DAP awards are subject to adjustment as a result of the Transaction. See Adjustments to DAP Awards below for more information.

The DAP awards are included in the Summary Compensation Table in the Option Awards column. The dollar amounts reported in the Summary Compensation Table for the DAP awards do not reflect actual payments made to the Discovery Named Executive Officers in the years presented. As further explained in footnote (1) to the table, the dollar amounts reflect the compensation expense recognized for financial reporting purposes with respect to DAP awards held by the executives. The dollar amounts paid to the Discovery Named Executive Officers in 2007 on account of previously vested DAP awards are reported in the Option Exercises table. For more information with respect to DAP awards granted to the Discovery Named Executive Officers in 2007, please refer to the Grants of Plan-Based Awards table.

Adjustments to DAP Awards. Under the terms of the DAP, the Transaction will not result in acceleration of vesting or acceleration of payment of DAP awards, or otherwise alter the rights of holders under the DAP. The awards will remain outstanding and vest and be payable in accordance with their terms as in effect at the time of the closing of the Transaction, subject to the adjustments described below.

Pursuant to the provisions of the DAP governing adjustments in the event of a change in capitalization and similar events, the member representatives have agreed that outstanding DAP awards will be adjusted at the effective time of the merger to reflect the changes in DHC s stock in a manner similar to the adjustments to DHC s stock options described in The Transaction Agreements Merger Agreement Treatment of Stock Options Director Options above. Specifically, the base price (or Beginning Unit Value as defined in the DAP) of each DAP award (as adjusted, an **Adjusted DAP award**) will be calculated by multiplying (x) the volume weighted average price of the New Discovery Series A common stock over the first 10 trading days of regular way trading after the closing of the

Transaction, and (y) a fraction, (1) the numerator of which is the base price (or Beginning Unit Value) of the existing DAP award and (2) the denominator of which is the volume weighted average price of the DHC Series A common stock over 5 consecutive trading days of regular way trading prior to closing of the Transaction. The number of shares of New Discovery Series A common stock relating to each such Adjusted DAP award will be calculated to preserve the aggregate intrinsic value of the existing DAP award.

By way of illustration, the chart below shows the effect of the adjustments described above for DAP awards held by the Discovery Named Executive Officers as of December 31, 2007, other than Mr. Millay, whose DAP awards will not be adjusted and will be paid based on the value on his departure date (July 25, 2008). For purposes of the following illustrations, and in lieu of a volume weighted average price of the applicable common stock, we used the closing price of DHC Series A common stock as of a recent date, which was $21.18, and derived hypothetical post-closing trading prices for New Discovery Series A common stock. Because the value of the DHC Series A common stock and the New Discovery Series A common stock may differ from the prices used in this example, the number of shares of New Discovery Series A common stock to which the Adjusted DAP awards relate, and the base price of each such Adjusted DAP award, may be different.

		Discovery DAP Awards		New Discovery Adjusted DAP Awards (1)	
Executive	**DAP Grant Date**	**Beginning Price**	**No of Outstanding DAP Units (2)**	**Adjusted Beginning Price**	**No of Adjusted DAP Units (3)**
John S. Hendricks	10/1/2005	$ 12.52	3,110,957	$ 11.83	3,292,018
John S. Hendricks	10/1/2005	$ 15.81	1,879,019	$ 14.94	1,988,380
John S. Hendricks	10/1/2007	$ 31.01	1,663,324	$ 29.30	1,760,131
David M. Zaslav	1/2/2007	$ 17.70	4,000,000	$ 16.73	4,232,804
Mark G. Hollinger	10/1/2005	$ 12.52	5,907	$ 11.83	6,251
Mark G. Hollinger	10/1/2005	$ 15.81	594,094	$ 14.94	628,671
Mark G. Hollinger	12/5/2006	$ 17.22	250,000	$ 16.27	264,550
Mark G. Hollinger	10/1/2007	$ 31.01	199,999	$ 29.30	211,639
Bruce L. Campbell	3/19/2007	$ 19.50	700,000	$ 18.43	740,741

(1) The adjustments to the Discovery DAP units reflected in this table are calculated to preserve the aggregate intrinsic value of the DAP units.

(2) Each outstanding DAP unit relates to one share of DHC Series A common stock.

(3) Each adjusted DAP unit will relate to one share of New Discovery Series A common stock.

<u>Equity Plans Following Completion of Transaction</u>

Because equity-based incentive compensation represents a material component of Discovery s executive compensation plan, the Transaction is expected to provide real and substantial benefits in this regard. The Transaction, together with the AMC spin-off, will further enhance the ability of New Discovery, and therefore Discovery, to attract, retain and provide incentives to qualified personnel, by enabling it to grant equity incentive awards based on the publicly traded common stock of New Discovery, which will directly reflect the performance of the businesses of Discovery. The Transaction, together with the AMC spin-off, will further enable New Discovery, and therefore, Discovery, to more effectively tailor employee benefit plans and retention programs, when compared with current alternatives, to provide improved incentives to the employees and future hires of New Discovery that will better and more directly align the incentives for management at New Discovery and Discovery with their performance.

The member representatives currently expect that, in general, no new DAP awards will be provided following completion of the Transaction. In lieu of new DAP awards, Discovery s employees, including current DAP participants, will be eligible to receive grants under the DHC incentive plan once it is assumed by New Discovery in the Transaction. The terms of any future grants under the DHC incentive plan (other than those contemplated by the term sheet with Mr. Hendricks and the employment agreement with Mr. Singer) have not been determined; rather, it is the expectation of DHC and Advance/Newhouse that the compensation committee of the New Discovery board will be tasked with making those determinations. It is expected that New Discovery will provide equity incentive awards, including stock options, restricted shares, stock appreciation rights and performance awards, to its employees and independent contractors under the DHC incentive plan following the closing of the Transaction. The DHC incentive plan is designed to provide awards in those circumstances in which either (i) the award would help better align the interests of a recipient with those of the stockholders and help motivate the recipient to increase the value of the company for the stockholders or (ii) the award would assist the company in attracting key employees. For a description of proposed amendments to the DHC incentive plan, which are designed to enhance its utility for New Discovery following the Transaction, see The DHC Incentive Plan Proposal.

As described above, Mr. Zaslav s employment agreement provides that he is entitled to replenishment grants under the DAP as his vested units are paid out. The member representatives and Mr. Zaslav are currently discussing how this provision will be addressed following completion of the Transaction. Depending on the outcome of these discussions, Mr. Zaslav may continue to receive replenishment grants under the DAP (adjusted as described above), or other equity-related awards may be provided to Mr. Zaslav.

Also, as mentioned above, the member representatives determined to amend Mr. Hendricks existing DAP arrangements in connection with the closing of the Transaction. Pursuant to a term sheet entered into between Mr. Hendricks and the member representatives on July 29, 2008, Mr. Hendricks DAP awards will continue to vest post-closing of the Transaction, but, in lieu of any replenishment awards, Mr. Hendricks will receive stock options under the DHC incentive plan. For more information regarding this term sheet, see Executive Compensation Arrangements John Hendricks Equity Stake Transition Term Sheet below.

Please see Executive Compensation Arrangements Singer Employment Agreement below for a description of equity awards that Discovery plans to provide to Mr. Singer following completion of the Transaction in accordance with his employment agreement.

Retirement Benefits

In order to ensure that the Discovery Named Executive Officers receive competitive compensation packages, in addition to a standard 401(k) defined contribution plan, Discovery offers a Supplemental Retirement Plan (the **SRP**) to all of its full-time employees at the vice president level and above. The employee can make an election to defer a portion of base salary each calendar year into the SRP account. To encourage participation in the defined contribution plans, Discovery makes a matching contribution of (i) 100% of the employee s first 3% of salary contributions to the defined contribution plans, and (ii) 50% of the employee s next 3% of salary contributions to the defined contribution plans, up to a maximum amount of 4.5% of company matching contributions, subject to certain limits under applicable tax regulations. Participants in the SRP are also permitted to contribute portions of their DAP payments, their ICP awards and any other incentive payments they receive from Discovery to their SRP accounts. These contributions are not matched by Discovery. The 401(k) accounts and the SRP accounts are managed by the same plan administrators and offer the same investment options.

For more information about the SRP, please refer to the Non-Qualified Deferred Compensation Table below.

Health, Welfare and Other Personal Benefits

The Discovery Named Executive Officers are entitled to participate in the health, welfare and fringe benefits generally made available by Discovery to all of its full-time employees, such as basic and supplemental life insurance, short and long-term disability, commuter reimbursement, fitness reimbursement and access to legal resources. The Discovery Named Executive Officers are also entitled to participate in executive-level long-term disability and long-term care plans.

In addition, Discovery provides the following perquisites and other personal benefits to its Discovery Named Executive Officers:

Relocation Expenses; Related Gross-Up. Consistent with Discovery s objective to attract and retain a high-performing executive management team, Discovery actively recruits top-notch candidates from all over the country to fill executive level openings and will reimburse the newly hired executive for his relocation costs. Mr. Zaslav, Discovery s CEO, joined the company in the beginning of 2007, and Mr. Millay, Discovery s former CFO, joined the company in the third quarter of 2006. Each of Messrs. Zaslav and Millay received reimbursement of relocation expenses, as well as gross-ups to cover taxes associated with this benefit, as described in notes 6, 7 and 9 to the Summary Compensation Table.

Aircraft Usage; Related Gross-Up. Discovery has an agreement with NetJets Inc. pursuant to which it leases the right to a specified amount of travel each calendar year on NetJets aircraft. Discovery allows Messrs. Hendricks and Zaslav to use a portion of Discovery s allotted travel time on NetJets aircraft for their personal use. Under

Mr. Zaslav s employment agreement, he is entitled to the commuting use of company aircraft until July 31, 2008, which Discovery provides through its NetJets agreement. Family members may accompany Mr. Hendricks and Mr. Zaslav on these flights at no aggregate incremental cost to the company. Other executives are permitted to travel on the NetJets aircraft for business travel with approval of Mr. Zaslav. For 2007, Discovery provided a gross-up to Mr. Hendricks to cover taxes for imputed income arising when Mr. Hendricks spouse accompanied him on business travel, but did not provide a tax gross-up to Mr. Hendricks for his personal use of the aircraft. For 2007, Discovery provided a gross-up to Mr. Zaslav to cover taxes for imputed income arising when Mr. Zaslav s spouse accompanied him on business travel. In addition, Discovery provided Mr. Zaslav a gross-up to cover taxes arising from his commuting use of aircraft for the first seven months of 2007.

Mobile Access. Discovery reimburses Mr. Zaslav for limited home office expenses, including his monthly satellite, cable and related television charges and Internet access.

Car Allowance. Discovery provides Mr. Zaslav with a monthly car allowance in keeping with its principle of providing its Discovery Named Executive Officers with competitive compensation packages.

Life Insurance Policy. Discovery has agreed to provide Mr. Hendricks death benefit coverage under a split-dollar life insurance policy. Death benefits are payable upon the death of both Mr. Hendricks and his wife. At that time, Discovery will recover the total premiums paid for the policy, and the remaining death benefit will be payable to a Hendricks family trust. The premiums paid for this policy are included in the Summary Compensation Table in All Other Compensation below.

For more information regarding the perquisites provided in 2007 to each Discovery Named Executive Officer, please refer to the All Other Compensation column of the Summary Compensation Table.

Payments on Change of Control or Certain Terminations

Under the employment agreements that Discovery has entered into with its Discovery Named Executive Officers (other than Messrs. Hendricks and Hollinger), Discovery will be required to make certain payments to any such Discovery Named Executive Officer who is terminated by Discovery without cause or who quits for good reason as well as following the death or disability of the Discovery Named Executive Officer and in connection with certain change of control events (in each case as defined in the applicable agreement). In addition, the DAP provides for the acceleration of vesting upon prescribed events such as the death or disability of the participant and in connection with certain change in control events (as defined therein). For more information regarding these payments, please see Potential Payments Upon Termination or Change-in-Control below.

Pursuant to the terms of Mr. Millay s retention agreement, Mr. Millay will receive a retention payment, ICP payments, and payment for his vested DAP units and other benefits in connection with his departure from the company. For more information regarding these payments, please see Executive Compensation Arrangements Millay Employment Agreement; Millay Retention Agreement below.

Cash Compensation Paid With Respect to 2007

The following table shows the total cash compensation paid to the Discovery Named Executive Officers with respect to 2007. As described above, cash compensation was paid for salary, bonus (including signing bonus, if applicable), ICP awards, and pursuant to the DAP, as well as in connection with other compensation such as Discovery s 401(k) and SRP plans, and tax gross-ups in connection with certain perquisites and personal benefits. The ICP awards included in the table below were paid in the first quarter of 2008 for 2007 performance. The ICP awards paid in 2007 for 2006 performance are not included in this table. As described in footnote (1) to the Summary Compensation Table, amounts shown in the Summary Compensation Table on account of DAP awards represent the compensation expense recognized in the particular year for financial reporting purposes only. The table below shows the amount of cash compensation actually paid to the Discovery Named Executive Officers with respect to 2007, which Discovery believes is useful to understanding the company s compensation programs. Additional detail about these payments is included in the footnotes to the Summary Compensation Table. The compensation included in other cash compensation does not include the value of the other perquisites and other personal benefits identified in the Summary Compensation Table. While the table below is presented to show the actual cash paid to the Discovery Named Executive Officers under Discovery s compensation program with respect to 2007, the table is not a substitute for the tables and disclosures required by the SEC s rules. The tables and related disclosures required by the SEC rules begin below.

2007 Cash Compensation

	Salary ($)	Bonus ($)	DAP Payments ($)	ICP Payments ($)	Other Cash Compensation ($)	Total Cash Compensation ($)
John S. Hendricks	1,000,000	500,000	28,692,131		24,803	30,216,934
David M. Zaslav	1,953,846	5,500,000			106,364	7,560,210
Mark G. Hollinger	967,692		3,046,456	1,344,291	24,750	5,383,189
Roger F. Millay	550,000			451,110	22,500	1,023,610
Bruce L. Campbell	615,385	461,539		361,074	9,000	1,446,998

Summary Compensation Table

nd Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	All Other Compensation ($)(3)	Tot ($
. Hendricks	2007	1,000,000	500,000		56,199,809		154,370(4)	57,85
r and	2006	1,000,000	1,875,000		12,200,606		80,869(4)	15,15
an of the Board								
M. Zaslav	2007	1,953,846	5,500,000(5)		11,145,669		504,844(6)	19,10
nt and	2006							
xecutive Officer								
G. Hollinger	2007	967,692			6,617,496	1,344,291	28,352	8,95
Executive Vice	2006	719,423			1,251,236	596,160	28,046	2,59
nt and Chief Operating								
F. Millay	2007	550,000			2,273,259	451,110	212,418(7)	3,48
Executive Vice	2006*	129,038	160,000(8)		84,885	97,734	93,655(9)	56
nt and Chief								
al Officer								
L. Campbell	2007*	615,385	461,539(10)		1,340,689	361,074(11)	9,873	2,78
nt, Digital Media	2006							
orate Development								

* Partial year

(1) The dollar amounts in this column reflect the compensation expense recognized for financial statement reporting purposes with respect to the DAP awards held by the Discovery Named Executive Officers for each of the applicable fiscal years. These amounts do not reflect actual payments made to the Discovery Named Executive Officers. See the table captioned Option Exercises for information about amounts paid during 2007 on account of the DAP awards, as the DAP awards are payable in cash only. The compensation expense reflected in the table is calculated in accordance with FAS 133, Accounting for Derivative Instruments and Hedging Activities, because the DAP awards relate to stock of DHC, not stock of Discovery or a consolidating parent company of Discovery. However, because the DAP awards are similar to liability awards under FAS 123R, FAS Statement No. 123 (Revised 2004) Share-Based Payment, the compensation expense actually recognized by Discovery is equal to the expense that would be recognized by Discovery under FAS 123R.

These dollar amounts include compensation expense attributable to awards granted during 2007 and 2006 and awards granted prior thereto that remained unvested during 2007 and 2006, as the case may be, and exclude the impact of estimates for forfeitures as these are service-based vesting awards. For a description of the assumptions applied in these calculations, see footnote 15 to the consolidated financial statements of Discovery Communications Holding for the year ended December 31, 2007 (which are included as Appendix A-3 hereto). For more information regarding the DAP awards, please see Compensation Discussion and Analysis Elements of

Compensation Discovery Appreciation Program above.

(2) These amounts reflect the cash performance awards earned by the applicable Discovery Named Executive Officers during 2007 and 2006 under Discovery s Incentive Compensation Plan, which is more fully described under Compensation Discussion and Analysis Elements of Compensation Incentive Compensation Plan above. The 2007 award amounts were determined and paid out during the first quarter of 2008, and the 2006 award amounts were determined and paid out during the first quarter of 2007.

(3) Discovery offers its executives basic life insurance as well as executive level disability and long-term care coverage. Discovery also offers matching contributions to an executive s 401(k) plan and supplemental

retirement plan, subject to certain limitations. Below are the payments made on behalf of the Discovery Named Executive Officers to the foregoing plans:

				Matching Contributions	
		Basic Life ($)	Disability/Long Term Care ($)	401(k) ($)	SRP ($)
Mr. Hendricks	2007	1,092		10,125	14,365
	2006	1,092		9,900	14,850
Mr. Zaslav	2007	1,092	3,967		
	2006				
Mr. Hollinger	2007	1,092	2,510	10,125	14,625
	2006	786	2,510	9,900	14,850
Mr. Millay	2007	600	2,399	9,173	13,327
	2006	600	472		
Mr. Campbell	2007	873		9,000	
	2006				

For more information regarding these benefits, please see Compensation Discussion and Analysis Elements of Compensation Retirement Benefits and Health, Welfare and Other Personal Benefits above.

(4) Discovery has an agreement with NetJets pursuant to which it leases the right to a specified amount of travel each calendar year on NetJets aircraft. Discovery allows Mr. Hendricks a portion of Discovery s allotted travel time on the NetJets aircraft for his personal use. Discovery provided a gross-up to Mr. Hendricks to cover taxes for imputed income arising when Mr. Hendricks spouse accompanied him on business travel, but did not provide a tax gross-up to Mr. Hendricks for his personal use of the aircraft. The amount of this gross-up for 2007 and 2006 was $313 and $3,055, respectively, and is included in the table. In addition, the aggregate incremental cost to Discovery for Mr. Hendricks personal use of the aircraft during 2007 in the amount of $78,326 is included in the table. Also included in the table for 2006 are reimbursements to him for limited home-office expenses. The table also includes annual premiums of $50,149 for Mr. Hendricks split dollar life insurance policy as described in Compensation Discussion and Analysis Elements of Compensation Health Welfare and other Personal Benefits above.

(5) Includes Mr. Zaslav s signing bonus of $2.5 million as well as an annual bonus of $3 million paid in 2008 with respect to services rendered by him under his employment agreement in 2007.

(6) Discovery allows Mr. Zaslav a portion of Discovery s allotted travel time on the NetJets aircraft for his personal use. Discovery provided a gross-up to Mr. Zaslav to cover taxes for imputed income arising when Mr. Zaslav s spouse accompanied him on business travel. In addition, Discovery provided Mr. Zaslav a gross-up to cover taxes arising from his commuting use of aircraft for the first seven months of 2007. The amount of this gross-up for 2007 is included in the table. In addition, the aggregate incremental cost to Discovery for Mr. Zaslav s personal use of the aircraft (including commuting) during 2007 in the amount of $252,415 (and related personal use of car services in the amount of $15,945) is included in the table. Also included in the table are Mr. Zaslav s relocation expenses of $106,124, a tax gross-up for imputed income associated with the reimbursement of certain relocation and other expenses, his car allowance, and various reimbursements to him for miscellaneous travel and home-office expenses. Mr. Zaslav received an aggregate amount of $106,364 in tax gross-ups for these items for 2007, which is included in the table.

(7) Includes reimbursement to Mr. Millay of relocation expenses in the amount of $186,919.

(8) Reflects Mr. Millay s signing bonus.

(9) Includes reimbursement to Mr. Millay of relocation expenses in the amount of $92,583.

(10) Reflects the minimum bonus amount to which Mr. Campbell was entitled under his employment agreement.

(11) Reflects the balance of Mr. Campbell s 2007 bonus amount which was paid pursuant to the ICP.

Grants of Plan-Based Awards in 2007

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)(1)	All Other Option Awards: Number of Shares Underlying Options (#)	Exercise or Base Price of of Option Awards ($/sh)	Grant Date Fair Value of Stock and Option Awards ($)
John S. Hendricks	10/1/2007				1,663,324(2)	31.01	9,069,907
David M. Zaslav	1/2/2007				4,000,000(2)	17.70	14,380,237
Mark G. Hollinger	(3)	0	729,863	1,532,712			
	10/1/2007				199,999(2)	31.01	1,090,571
Roger F. Millay	(3)	0	330,000	693,000			
Bruce L. Campbell	(3)	0	473,425	994,193			
	3/19/2007				700,000(2)	19.50	4,406,872

(1) Amounts in excess of this maximum may be paid on a discretionary basis.

(2) Reflects the number of units granted under the applicable DAP award. Each award vests as to 25% of the units on each anniversary of the grant date and is payable in cash. For more information regarding the DAP awards, please see Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program above.

(3) These grants were made under Discovery s Incentive Compensation Plan with respect to the year ended December 31, 2007. The performance metrics and potential payout amounts under a Discovery Named Executive Officer s 2007 ICP grant were determined in the first quarter of 2007. For more information regarding these grants, please see Compensation Discussion and Analysis Elements of Compensation Incentive Compensation Plan above.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards(1)
Number of	Number of

Name	Securities Underlying Unexercised Options (#) Exercisable(2)	Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date(3)
John S. Hendricks		1,663,324(4)	31.01	
	2,765,294	345,663(5)	12.52	
	1,252,679	626,340(5)	15.81	
David M. Zaslav		4,000,000(6)	17.70	
Mark G. Hollinger		199,999(4)	31.01	
	62,500	187,500(7)	17.22	
	396,062	198,032(5)	15.81	
	5,250	657(5)	12.52	
Roger F. Millay	187,500	562,500(7)	17.22	
Bruce L. Campbell		700,000(8)	19.50	

(1) All awards listed in the table consist of awards that were made under the Discovery Appreciation Program. Each award vests as to 25% on each anniversary of its grant date and is payable in cash. For more information regarding the DAP awards, please see Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program above.

(2) The units listed in this column consist of the portion of each outstanding DAP award that has vested but with respect to which payment has not yet been made due to the delayed payment cycle of the pre-2007 DAP awards described in Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program above. The amount to be paid for these DAP units is not known at this time. The amount to be

paid per unit will be equal to the difference between the exercise price shown in the table and 110% of the average of the closing stock prices of the DHC Series A common stock on the Nasdaq Global Select Market over the 10 trading days immediately preceding and including the applicable anniversary date and the 10 trading days following the applicable anniversary (the Ending Unit Value). The amounts shown for Mr. Hendricks are payable within 60 days of the October 1, 2008 applicable anniversary date. With respect to the amounts shown for Mr. Hollinger, the 62,500 DAP unit award is payable within 60 days of the December 5, 2008 applicable anniversary date, and the 396,062 and 5,250 DAP unit awards are payable within 60 days of the October 1, 2008 applicable anniversary date. The amount shown for Mr. Millay is payable within 60 days of his departure date (July 25, 2008). The amount to be paid per unit will be the difference between the exercise price shown in the table and the Ending Unit Value (with his departure date used as the applicable anniversary date). As discussed in Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program Adjustments to DAP Awards above, DAP awards will be adjusted upon completion of the Transaction.

(3) DAP awards have no expiration date. Payment is made in cash in connection with vesting.

(4) Grant date of award was October 1, 2007.

(5) Grant date of award was October 1, 2005.

(6) Grant date of award was January 2, 2007.

(7) Grant date of award was December 5, 2006.

(8) Grant date of award was March 19, 2007.

Option Exercises and Stock Vested in 2007

	Option Awards	
Name	**Number of Shares Acquired on Exercise (#)(1)**	**Value Realized on Exercise ($)(2)**
John S. Hendricks	1,663,324	28,692,131
David M. Zaslav		
Mark G. Hollinger	199,999	3,046,456(3)
Roger F. Millay		
Bruce L. Campbell		

(1) These awards were made under the Discovery Appreciation Program. The amounts consist of payments that were made on a delayed payment cycle basis for pre-2007 DAP awards as described in Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program above. Payment was made in cash and no shares were issued. The numbers listed in this column reflect the number of units that vested and gave rise to the value realization event.

(2) Represents amount of cash actually received with respect to units listed in corresponding column of table.

(3) Of this amount, $75,800 was deferred by Mr. Hollinger as a contribution to his Supplemental Retirement Plan.

Nonqualified Deferred Compensation (1)

Name	Executive Contributions in last fiscal yr ($)	Registrant Contributions in last fiscal yr ($)	Aggregate Earnings in last fiscal yr ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at 12/31/07 ($)
John S. Hendricks	264,692(2)	14,365(3)	10,957		389,024
David M. Zaslav					
Mark G. Hollinger	154,916(4)	14,625(3)	7,914		689,506
Roger F. Millay	17,769(5)	13,327(3)	1,083		30,614
Bruce L. Campbell					

(1) This table provides information with respect to Discovery s Supplemental Retirement Plan for employees at the level of vice president and above. For more information regarding the SRP, please see Compensation Discussion and Analysis Elements of Compensation Retirement Benefits above.

(2) Of this amount, $77,192 is reported under Salary for 2007 and $187,500 is reported under Bonus for 2006 in the Summary Compensation Table.

(3) This amount is reported under All Other Compensation in the Summary Compensation Table.

(4) Of this amount, $95,300 is reported under Salary for 2007 and $59,616 is reported under Bonus for 2006 in the Summary Compensation Table.

(5) This amount is reported under Salary for 2007 in the Summary Compensation Table.

Executive Compensation Arrangements

John Hendricks

Employment Arrangements with Discovery. John Hendricks, the founder and Chairman of Discovery, does not have a formal employment agreement with Discovery. Pursuant to resolutions adopted by Discovery s stockholders in 2004, Mr. Hendricks is paid an annual salary of $1 million and his bonus opportunity is 60% of annual salary. As described in Compensation Discussion and Analysis Elements of Compensation Bonus, Mr. Hendricks actual bonus varies from year-to-year.

In 2004, Mr. Hendricks and the stockholders of Discovery s predecessor (**DCI**) entered into an agreement, which is reflected in a letter agreement between DCI s compensation committee and Mr. Hendricks (the **2004 Agreement**). The 2004 Agreement includes special rules for Mr. Hendricks DAP units and the conditions under which he continues to serve as Chairman of Discovery, each as described below.

Mr. Hendricks DAP units replaced units that had been granted under the then-Discovery Communications, Inc. Executive Incentive Plan (**EIP**). Discovery established the DAP in 2005 following the DHC spin-off. In the 2004 Agreement, the parties agreed to additional terms governing Mr. Hendricks EIP units, which, to the extent relevant, continue to govern Mr. Hendricks DAP units that were issued to replace the EIP units, and any replenishment DAP units issued with respect thereto. Specifically, the parties agreed that Mr. Hendricks EIP units that have not yet vested may be rescinded, and any vested EIP units may be subject to a forced cash out (and paid to Mr. Hendricks) to prevent further appreciation, but only by either (i) the unanimous action of DCI s stockholders if the company has not gone public, or (ii) the vote of two-thirds of the DCI board of directors, including the votes of any board members representing the current DCI stockholders, in the event that the company has gone public.

In addition, under the 2004 Agreement, the earned value of any vested EIP units that have not already been subject to rescission or forced cash out may not be rescinded by DCI or forfeited by Mr. Hendricks except (i) as provided under the EIP in the event of his voluntary departure and subsequent work for a competitor, or (ii) in the event of his conviction for any act of fraud or any other felony in connection with DCI, in which case the value of any vested EIP units may be subject to partial or complete forfeiture upon the unanimous action of DCI s stockholders. Under the provisions of the DAP that now apply to Mr. Hendricks previous EIP units, in the event of Mr. Hendricks voluntary departure and subsequent work for a competitor, Mr. Hendricks would receive 75% of the value of his vested DAP units. Under the DAP, a participant, including Mr. Hendricks, who voluntarily terminates employment ordinarily receives 100% of the value of his vested DAP units if he signs a release that includes a covenant not to compete.

Pursuant to the 2004 Agreement, the DCI stockholders and Mr. Hendricks agreed that he would remain in the position of Chairman of the Board of DCI. The 2004 Agreement confirms the agreement between Mr. Hendricks and the DCI stockholders that Mr. Hendricks may be removed from the position of Chairman of DCI at any time for any reason, but only by unanimous action of the DCI stockholders if the company has not gone public, or the vote of two-thirds of the DCI board of directors, including the votes of any board members representing any of the current DCI stockholders, in the event that the company has gone public.

In connection with the Transaction, the member representatives and Mr. Hendricks determined to revise the foregoing arrangements. The revisions to the DAP arrangements are described below under the heading Equity

Stake Transition Term Sheet, and the revisions to his employment arrangement are described below under the heading Employment Letter.

<u>*Equity Stake Transition Term Sheet*</u>. On July 29, 2008, the member representatives and Mr. Hendricks reached an agreement in principle with respect to the treatment of Mr. Hendricks DAP awards following the closing of the Transaction, the principal terms of which are reflected in a term sheet (the **Hendricks Term Sheet)** executed by Mr. Hendricks and the member representatives. Definitive agreements are expected to be entered into following the closing of the Transaction.

As discussed in the Hendricks Term Sheet, Mr. Hendricks original equity holding in Discovery (i.e., his founder s equity) was replaced over the years with phantom equity and appreciation units, which were deemed to be more appropriate for a private company with no public market value. Today, his phantom equity takes the form of DAP awards with respect to 6,653,300 units. Mr. Hendricks and the member representatives determined that it would be appropriate following the closing of the Transaction to convert Mr. Hendricks DAP units into stock options under the DHC incentive plan (as assumed by New Discovery), thereby replicating his founder s equity in connection with the creation of the new public company. It should be noted that the treatment of Mr. Hendricks DAP units described below was a separately negotiated transaction and does not affect, in any way, the treatment of the outstanding DAP awards generally. As discussed under Executive Compensation Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program Adjustments to DAP Awards, no determinations have yet been made with respect to the post-closing treatment of the DAP awards generally (other than the closing-related adjustments described therein).

Under the Hendricks Term Sheet, upon the vesting of Mr. Hendricks existing tranches of DAP units, vested DAP units will be paid in cash and replaced with grants of nonqualified stock options to acquire shares of New Discovery Series A common stock under the DHC incentive plan (as assumed by New Discovery) on a one-for-one basis. Based on the scheduled vesting dates for Mr. Hendricks DAP awards, the Hendricks Term Sheet provides that he will receive the following option grants:

In 2008, 4,779,467 DAP units vest and will be replaced with stock options relating to an equivalent number of shares of New Discovery Series A common stock with a term of 10 years.

In 2009, 1,042,171 DAP units vest and will be replaced with stock options relating to an equivalent number of shares of New Discovery Series A common stock with a term of 9 years.

In 2010, 415,831 DAP units vest and will be replaced with stock options relating to an equivalent number of shares of New Discovery Series A common stock with a term of 8 years.

In 2011, 415,831 DAP units vest and will be replaced with stock options relating to an equivalent number of shares of New Discovery Series A common stock with a term of 7 years.

The foregoing options (collectively, the **Founder Options)** will vest ratably over four years and will expire in 2018. The Founder Options described above are based on the number of DAP units currently held by Mr. Hendricks. The actual number of shares subject to the Founder Options will be equal to the number of DAP units held by Mr. Hendricks following the adjustment of his outstanding DAP awards in connection with the closing of the Transaction. For a description of these adjustments, see Executive Compensation Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program Adjustments to DAP Awards.

With respect to the 2008 grant of Founder Options only:

if New Discovery becomes a reporting company before Mr. Hendricks DAP units vest on October 1, 2008 (the date on which his DAP units vest in 2008), (i) the ending unit value under the DAP with respect to those units will be based solely on the average closing price of New Discovery s common stock without regard to the 10% premium currently applied in calculating ending unit values under the DAP, and (ii) the 2008 grant of Founder Options will be made on October 1, 2008 with an exercise price equal to the fair market value of the New Discovery common stock on that date; and

if New Discovery becomes a reporting company after Mr. Hendricks DAP units vest on October 1, 2008, Mr. Hendricks will receive his 2008 grant of Founder Options, within 10 days of New Discovery becoming a reporting company, with an exercise price equal to the higher of the fair market value of the DHC Series A common stock on October 1, 2008 and the fair market value of the New Discovery common stock on the grant date. If the fair market value of the New Discovery common stock at the grant date is greater than the fair market value of the DHC Series A common stock on October 1, 2008, Mr. Hendricks is entitled to receive a cash payment equal to the difference between the two fair market values multiplied by the number of shares subject to the grant (as may be adjusted as a result of the Transaction), which amount shall be paid in equal installments on each subsequent DAP vesting date.

The Founder Options cover all equity awards to be made to Mr. Hendricks through 2018 (other than any future grants which may be made in the discretion of the New Discovery compensation committee). Mr. Hendricks will have no right to a reload of additional grants upon vesting or exercise of any Founder Options.

If Mr. Hendricks employment is terminated for cause (as defined in the Hendricks Term Sheet), the Founder Options will be forfeited. If Mr. Hendricks employment is terminated (1) as result of death, disability or retirement (in each case, as defined in the Hendricks Term Sheet) or (2) by New Discovery other than for cause, the Founder Options will vest immediately and remain exercisable for their original term. If Mr. Hendricks voluntarily terminates his employment (other than as described in the previous two sentences), any Founder Options not vested on the date of termination will be forfeited, and the vested Founder Options will remain exercisable for one year following the termination (but not beyond their original term). The right of Mr. Hendricks to exercise the Founder Options during any period of time following termination of employment pursuant to items (1) and (2) above is conditioned upon him signing a general liability release and abiding by a non-compete. If such release is not signed or if the non-compete is breached, no Founder Options may be exercised after the date of termination and any gains from the post-termination exercise of Founder Options may be clawed-back by New Discovery.

As defined in the Hendricks Term Sheet:

cause means (i) willful malfeasance in connection with his services to the company (and its successors), including embezzlement, or misappropriation of funds, property or corporate opportunity; (ii) committing any act or becoming involved in any situation or occurrence involving moral turpitude, which is materially damaging to the business or reputation of the company (or its successors); or (iii) conviction of, or plea of guilty or nolo contendere to, or failure to defend against the prosecution for, a felony or a crime involving moral turpitude;

disability means the inability to perform substantially all of his duties to the company in the normal and regular manner due to mental or physical illness or injury for one hundred fifty (150) days or more during the twelve (12) consecutive months then ending; and

retirement means the voluntary termination of employment after attainment of age 65.

All awards under the DHC incentive plan (as assumed by New Discovery), including the Founder Options, must be approved by the compensation committee of the New Discovery board. Accordingly, the definitive agreements relating to the Hendricks Term Sheet will become effective upon their approval by the New Discovery compensation committee at its first meeting following the completion of the Transaction.

Employment Letter. On July 30, 2008, Mr. Hendricks entered into a letter agreement with the member representatives (the **Hendricks Letter**) governing his employment with New Discovery following the Transaction. Under the Hendricks Letter, Mr. Hendricks will be employed as a senior executive of New Discovery, with the title of Founder, for 10 years beginning upon the completion of the Transaction. Mr. Hendricks will report directly to the board of New Discovery, and his employment may only be terminated by the New Discovery board upon the affirmative vote of a majority of the members of the New Discovery board (excluding Mr. Hendricks). Mr. Hendricks will be entitled to an annual salary of $1 million and will be eligible to receive an annual incentive-based compensation award with a target of 60% of his salary (subject to adjustment by the New Discovery board). The actual amount paid to Mr. Hendricks for any incentive-based compensation award will be determined in the sole discretion of the New Discovery compensation committee. Mr. Hendricks will also be entitled to participate in the employee benefits arrangements that New Discovery makes generally available to its senior management.

The Hendricks Letter provides that the member representatives currently contemplate that Mr. Hendricks will serve as Chairman of the Board of New Discovery, but his election to (and removal from) that position will be subject to the affirmative vote of a majority of the members of the New Discovery board (and is further subject to Advance/Newhouse s special voting rights). During Mr. Hendricks employment with New Discovery, he will not be entitled to receive any additional compensation for serving on the New Discovery board.

Effective upon completion of the Transaction, the Hendricks Term Sheet and the Hendricks Letter will supersede all prior employment arrangements between Mr. Hendricks and Discovery (including the 2004 agreement and the board resolutions described above).

Zaslav Employment Agreement

Discovery has entered into an employment agreement with David Zaslav, its President and Chief Executive Officer, for an original term of five years commencing on January 2, 2007, with automatic one year extensions (subject to termination by either party prior to the commencement of an extension period). Pursuant to this agreement, Mr. Zaslav is entitled to receive a base salary of $2 million per annum and an annual bonus. During the first year of employment, Mr. Zaslav was entitled to receive and did receive a guaranteed bonus of $3 million. During each of the remaining four years of the original term of the agreement, Mr. Zaslav will be entitled to receive a guaranteed annual bonus, equal to $2 million for the second year of employment, $1.5 million for the third year of employment, and $1 million for each of the fourth and fifth years of employment. There is no guaranteed bonus amount for any extension period. After the first year of employment, Mr. Zaslav may earn a performance-based bonus in excess of the guaranteed bonus amount applicable to a particular year. The amount of the performance-based bonus will depend on the achievement of qualitative and quantitative performance criteria. The compensation committee of the New Discovery board will determine the quantitative and qualitative performance criteria for Mr. Zaslav s annual bonuses going forward. Mr. Zaslav also received a signing bonus of $2.5 million pursuant to the agreement. Mr. Zaslav receives 4 weeks of vacation under his agreement.

Pursuant to the employment agreement, Discovery was required to reimburse Mr. Zaslav for reasonable expenses incurred in relocating his principal residence, including temporary housing, closing and realtor costs and packing and transport expenses, subject to a maximum reimbursement of $250,000. In addition, during 2007 and a portion of 2008, Mr. Zaslav is entitled to limited personal use of aircraft under Discovery s NetJets agreement for commuting between his residence and Discovery s offices. Under the agreement, to the extent any expense associated with Mr. Zaslav s use of the aircraft is not deductible by Discovery, he will reimburse Discovery for the loss of any tax benefit or, at his election, pay for the use of such aircraft in a manner such that no portion of the expense is nondeductible.

Mr. Zaslav is also entitled to other perquisites, such as a monthly car allowance and certain mobile technology, as well as the ability to participate in all employee benefit plans available to Discovery s senior executive group.

On his start date, Mr. Zaslav received a DAP award with respect to 4 million units pursuant to the terms of his agreement. The terms of this award are substantially similar to the standard terms of the DAP awards described in Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program above, except as to the noted difference in pricing, the accelerated vesting described below and Mr. Zaslav s right to receive replenishment grants on each maturity date of his original award. If Mr. Zaslav is terminated without cause or he terminates his employment for good reason (in each case, as defined in the agreement), his DAP awards all accelerate with the amount to be paid and the timing of such payment to be based on his termination date. If, however, any such termination occurs prior to the fifth anniversary of his start date, 1/2 of his vested DAP awards will be valued as of the date of termination with the remaining 1/2 being valued as of their respective regular maturity dates or the fifth anniversary of his start date, whichever is earlier, in each case for purposes of determining the amount and timing of the payments to be made to him.

Upon any termination of his employment, Mr. Zaslav is entitled to all accrued and unpaid salary and bonus, accrued and unused vacation days and benefits accrued under Discovery s welfare and retirement plans. In addition, Mr. Zaslav is entitled to certain severance payments in the event he is terminated without cause or by reason of death or disability or he terminates his employment for good reason (in each case, as defined in the agreement). The payment of Mr. Zaslav s severance is conditioned on his execution of a release in favor of Discovery. For more information regarding these severance payments, please see Potential Payments Upon Termination or Change-in-Control below.

Pursuant to Mr. Zaslav s employment agreement, he is subject to customary restrictive covenants, including those relating to non-solicitation, non-interference, non-competition and confidentiality, during the term of his employment with Discovery and for a period thereafter.

Discovery s members and Mr. Zaslav currently are discussing possible revisions to Mr. Zaslav s employment agreement. The revisions will be described once they are finalized.

Millay Employment Agreement; Millay Retention Agreement

On August 8, 2006, Discovery entered into an employment agreement with Roger F. Millay, its former Senior Executive Vice President and Chief Financial Officer. This agreement was amended and restated on April 22, 2008 to comply with the requirements of Section 409A of the Code. The original term of Mr. Millay s employment agreement was three years beginning on September 29, 2006 and ending September 28, 2009, with an option to renew for an additional term. Pursuant to this agreement, Mr. Millay received a signing bonus of $160,000 and was entitled to receive a base salary of $550,000 per annum. For each year of the term, Mr. Millay was eligible to receive an annual bonus under the ICP with his target bonus equal to 60% of his base salary. For 2006, he was entitled to a minimum bonus amount of $40,000. Mr. Millay was also entitled to reimbursement of reasonable relocation expenses.

Under his employment agreement, Mr. Millay was entitled to receive a DAP award in April 2007 consisting of 460,000 units, however, he instead received a DAP award with respect to 750,000 units in December 2006. The terms of this award are substantially similar to the standard terms of the DAP awards described in Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program above, except as to accelerated vesting in certain events (such as termination by Discovery other than for cause (as defined therein)).

Under his employment agreement, Mr. Millay is entitled to all benefits available to similarly situated executives of Discovery and is subject to customary covenants as to confidentiality and non-competition.

In January 2008, Mr. Millay indicated his intention to leave Discovery, and, on January 8, 2008, Discovery entered into a retention agreement with Mr. Millay, pursuant to which the parties agreed to retain his services as Senior Executive Vice President and Chief Financial Officer through September 30, 2008, or earlier at the discretion of Discovery. Under the terms of the retention agreement, Mr. Millay will receive his base salary through September 30, 2008, amounting to $416,730, regardless of the date of final termination, as well as a retention payment of $1.5 million, to be paid within 30 days of his final departure date. Mr. Millay will also be entitled to receive payment for his vested DAP awards within 60 days after his departure, valued as of his final departure date. His unvested DAP awards will not accelerate. Mr. Millay s final departure date is July 25, 2008.

The retention agreement entitles Mr. Millay to receive a payment under the ICP for 2007, based on an individual performance multiplier of 1.0. For more information about the 2007 ICP awards, please see Compensation Discussion and Analysis Elements of Compensation Incentive Compensation Program. The retention agreement also entitles Mr. Millay to receive a prorated payment under the ICP for 2008 in the amount of $247,500 (based on a 9-month retention period). This lump sum is payable within 30 days of his final departure date.

As a condition to receiving any payments under the retention agreement, Mr. Millay must execute a general release in favor of Discovery as well as a mutual non-disparagement agreement.

Campbell Employment Agreement

Discovery entered into an employment agreement with Bruce L. Campbell, its President, Digital Media & Corporate Development, on March 13, 2007. This agreement was amended and restated on April 2, 2008 to comply with the requirements of Section 409A of the Code. The term of employment is for four years beginning on March 19, 2007 and ending March 18, 2011, with automatic one-year extensions (subject to termination by either party prior to the commencement of an extension period). Pursuant to this employment agreement, Mr. Campbell s

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base salary is $800,000 per annum, with minimum yearly increases of no less than $50,000. Mr. Campbell is also eligible to receive an annual performance bonus under the ICP with his target bonus equal to 75% of his then-base salary, with a minimum bonus payment for fiscal year 2007 equal to 75% of his prorated 2007 base salary.

Under his employment agreement, Mr. Campbell received a DAP award on March 19, 2007 consisting of 700,000 units. The terms of this award are substantially similar to the standard terms of the DAP awards described in Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program above, except if Mr. Campbell voluntarily terminates his employment other than for good reason (as defined therein), he would forfeit all rights under his DAP awards. Mr. Campbell is also entitled to all benefits available to similarly situated executives of Discovery and is subject to customary covenants as to confidentiality and non-competition.

Under Mr. Campbell s employment agreement, he is entitled to severance if Discovery terminates his employment other than for cause or if he terminates for good reason (in each case, as defined therein). The payment of Mr. Campbell s severance is conditioned on his execution of a release in favor of Discovery. In the event Discovery provides notice to Mr. Campbell that it will not extend his employment for any applicable period, Mr. Campbell is entitled to a non-renewal payment. For more information regarding these payments, please see Potential Payments Upon Termination or Change-in-Control below.

Singer Employment Agreement

Discovery entered into an employment agreement with Brad Singer, its Senior Executive Vice President, Chief Financial Officer, for an original term of three years commencing on July 15, 2008, with one automatic three year extension (subject to termination by either party prior to the commencement of an extension period). Pursuant to the agreement, Mr. Singer will receive a sign-on bonus of $35,000. The agreement provides Mr. Singer a base salary of $750,000 per annum, subject to annual increases in accordance with Discovery s standard practices and procedures. Mr. Singer is also eligible to receive an annual performance bonus with a payment target of 75% of his base salary. For fiscal year 2008 only, Mr. Singer is entitled to receive a guaranteed bonus of $470,000 and is eligible for an additional discretionary bonus in the sole discretion of the CEO and the compensation committee of the New Discovery board based on individual performance and the success of Discovery s transition to a public company.

Pursuant to the agreement, Discovery is required to reimburse Mr. Singer for reasonable expenses incurred in relocating his principal residence in accordance with Discovery s relocation policies, provided that the maximum reimbursement afforded under Discovery s relocation policy is increased to $1,750,000 (including financial loss protection on sale of his then current residence and tax gross ups). Reimbursement for relocation expenses is subject to continued employment and may be required to be repaid on a resignation without good reason or a termination for cause (in each case, as defined in the agreement) within 18 months of employment commencement.

Mr. Singer s agreement provides that he will be recommended for stock option awards with respect to New Discovery to be made if Discovery becomes a public company within 18 months following his employment commencement. The awards will consist of a sign-on award valued at $3 million under the assumptions below and an additional award valued at $1.6 million on the same assumptions. For purposes of determining the shares subject to the awards, the values stated above will be divided by the Black-Scholes value of DHC s common stock as of his commencement date (using Discovery s standard Black-Scholes assumptions for compensatory purposes). The options will be priced at the higher of the DHC price on employment commencement and the price of New Discovery stock on option grant. If New Discovery s stock price is higher, resulting in an upward price adjustment, Mr. Singer will be entitled to a cash payment of the difference, payable 75% on the third anniversary of employment commencement and 25% on the fourth anniversary, assuming continued employment at those dates (or, for the sign-on option, a prior termination without cause or resignation for good reason). The number of shares covered by the options and/or the price may be adjusted as appropriate to reflect the use of New Discovery stock rather than the stock of DHC. The options will vest at a rate of no less than 25% per year, beginning July 15, 2009. The sign-on option will include full vesting if Mr. Singer is terminated without cause or he terminates his employment for good reason or the original term is not extended. The agreement also provides that he may be recommended for additional option grants. If Discovery does not become a reporting company within 18 months, Discovery, in lieu of the foregoing, will provide him with an equity interest in Discovery with a value of

$4.6 million, adjusted to reflect changes in value since employment commencement, in a form determined by Discovery s board and reasonably acceptable to Mr. Singer.

Mr. Singer is also entitled to participate in employee benefit plans available to executives at his level at the company and is subject to customary covenants as to confidentiality and non-competition.

In the event that Mr. Singer is terminated without cause (including by contract non-extension) or he terminates his employment for good reason, he is entitled to payment of his base salary for the remainder of his employment term, but not less than 12 months base salary, pro-rated bonus and vesting of the sign-on option (as described above). These payments are conditioned on his execution of a release in favor of Discovery. Mr. Singer also is entitled to payment on death or disability as provided in the agreement.

Potential Payments Upon Termination or Change-in-Control

The following summarizes the potential payments and other benefits required to be made available to the Discovery Named Executive Officers in connection with a termination of their employment or a change in control. The summaries do not include payments or other benefits under incentive plans and other benefit plans and policies that apply equally to all salaried employees participating in such plans. Defined terms such as cause, good reason, and change of control used in this summary are described at the end of this summary. The quantitative examples provided below are premised on:

the applicable Discovery Named Executive Officer ceasing to be employed by Discovery as of December 31, 2007;

the ending unit value under the DAP as of that date equaling $27.40 (which is 110% of the average closing market prices of the DHC Series A common stock during the 10-trading days before and including the assumed termination date and the 10-trading days after the assumed termination date);

all accrued salary at that assumed termination date having previously been paid;

all accrued vacation for 2007 having been used; and

where the below calculations require the inclusion of an ending unit value under the DAP at a specified future date (such as upon expiration of any employment term), that the applicable ending unit value is $27.40.

John S. Hendricks

Mr. Hendricks does not have a formal employment agreement with Discovery. However, Mr. Hendricks 2004 Agreement governs his DAP units that were issued to replace his EIP units and any replenishment DAP units issued with respect thereto. The terms of the DAP also govern his DAP units for matters not addressed in the 2004 Agreement. The following description is provided as December 31, 2007, and therefore does not reflect any agreements between Mr. Hendricks and the member representatives with respect to his ongoing relationship with New Discovery. For a description of Mr. Hendricks post-closing employment arrangements, please see Executive Compensation Arrangements John Hendricks Equity Stake Transition Term Sheet and Employment Letter.

On termination of employment, Mr. Hendricks generally would be entitled to payment for any vested portions of his DAP units as provided in the DAP. If Mr. Hendricks voluntarily terminates his employment (other than for retirement) and signs a general release that includes a covenant not to compete and abides by such agreements, he is entitled to receive 100% of the value of his vested DAP units (as shown in the table below). If Mr. Hendricks does not sign a general release or does not abide by the agreements, he is entitled to receive 75% of the value of his vested DAP units. In addition, as a result of the application of the 2004 Agreement, if Mr. Hendricks were terminated for cause, he would not forfeit the value of his vested DAP units unless he were convicted of any act of fraud or any other felony in connection with Discovery, in which case the value of any vested DAP units may be subject to partial or complete forfeiture upon the unanimous action of Discovery s stockholders. Please see Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program for a description of the accelerated vesting of the DAP awards upon retirement.

Under the 2004 Agreement, his unvested DAP awards may only be rescinded or forfeited (whether or not Mr. Hendricks terminates employment) upon the specified vote of the Discovery stockholders or the Discovery board of directors. Consequently, if Mr. Hendricks were terminated for cause, he would be entitled to retain his unvested DAP awards unless the Discovery stockholders or the Discovery board of directors voted to rescind the DAP awards in accordance with the 2004 Agreement. For more information, see Executive Compensation Arrangements John Hendricks Employment Arrangements with Discovery and Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program.

Event	**Value of DAP Awards ($)**
By Discovery for Death or Disability; By Discovery other than for Cause within 1 year of a Change in Control(1)	68,046,415
By Discovery following conviction of any act of fraud or any other felony in connection with Discovery(2)	
By Discovery for cause not following conviction of any act of fraud or any other felony in connection with Discovery(3)	55,648,043
By Mr. Hendricks; By Discovery other than for Cause, Death or Disability(4)	55,648,043

(1) Represents acceleration of all DAP units.

(2) Represents forfeiture of all DAP units (vested and unvested), assuming unanimous stockholder vote for forfeiture of all units in this case.

(3) Represents payment for all vested DAP units and forfeiture of all unvested DAP units, and assumes board or stockholders (as required) vote for forfeiture of unvested units in this case.

(4) Represents payment for all vested DAP units and forfeiture of all unvested DAP units, and assumes board or stockholders (as required) vote for forfeiture of unvested units in this case.

David M. Zaslav

By Discovery Other than for Death, Disability or Cause; By Mr. Zaslav for Good Reason. If Mr. Zaslav s employment is terminated by Discovery other than for death, disability or cause (as defined therein) or by Mr. Zaslav for good reason, Mr. Zaslav s employment agreement entitles him to receive payments for the following:

(1) all accrued and unpaid salary, accrued and unpaid annual bonus (including any guaranteed bonus) for any completed year and accrued and unused vacation, in each case in a lump sum, and other vested benefits under DCI s welfare and benefit plans;

(2) a prorated portion of Mr. Zaslav s then current annual bonus (including any guaranteed bonus), based on the portion of the calendar year during which Mr. Zaslav was employed by Discovery, payable during the first quarter of the following year, in the ordinary course of Discovery s bonus payments;

(3) an amount equal to one-twelfth (1/12) of Mr. Zaslav s then current base salary and one-twelfth (1/12) of Mr. Zaslav s then current target annual bonus multiplied by the number of months in the applicable severance period (as defined below), payable over the course of the severance period consistent with Discovery s normal payroll

practices;

(4) accelerated vesting and payment for all of his DAP awards;

(5) the provision of COBRA premiums for the continuation of Discovery s group health insurance benefits to Mr. Zaslav and his family until the expiration of the severance period (or the earlier eligibility of such persons for coverage by a subsequent employer of Mr. Zaslav or when COBRA rights otherwise expire).

The severance period applicable to a December 31, 2007 termination was 36 months. Under Mr. Zaslav s employment agreement, the severance period for a later termination would be (1) 30 months if the termination were to occur during the second year of employment, (2) 24 months if termination were to occur during the third year of employment, (3) 18 months if termination were to occur during the fourth year of employment, and (4) 12 months if termination were to occur during the fifth year of employment, except that the severance period is the lesser of 36 months and the fifth anniversary of employment in the event of a termination by Discovery other than for cause or any termination by Mr. Zaslav for good reason within 12 months following a change in control of Discovery. In addition, Mr. Zaslav has the right to reduce his severance period to 12 months in all events in exchange for a reduction in the period of his non-competition covenant to one year from termination.

By Reason of Death or Disability. Mr. Zaslav s employment agreement provides for the payment of the following amounts upon termination of his employment by reason of his death or disability:

(1) all accrued and unpaid salary, accrued and unpaid annual bonus (including any guaranteed bonus) for any completed year and accrued and unused vacation, in each case in a lump sum, and other vested benefits under DCI s welfare and benefit plans;

(2) a prorated portion of Mr. Zaslav s then current annual bonus (including any guaranteed bonus), based on the portion of the calendar year during which Mr. Zaslav was employed by Discovery, payable during the first quarter of the following year, in the ordinary course of Discovery s bonus payments;

(3) payment for his DAP awards, in a lump sum, in accordance with the terms of the DAP (which provide for acceleration of vesting in such event); and

(4) the provision of COBRA premiums for the continuation of Discovery s group health insurance benefits to Mr. Zaslav, if applicable, and his family for so long as they remain eligible to receive COBRA benefits.

As a condition to receiving the severance payments described above (other than in the event of his death), Mr. Zaslav would be required to sign a general release.

By Discovery for Cause; By Mr. Zaslav Other than for Good Reason. If Mr. Zaslav s employment is terminated by Discovery for cause or by Mr. Zaslav other than for good reason (in each case, as defined therein), his employment agreement entitles him to receive all accrued and unpaid salary, accrued and unpaid annual bonus (including any guaranteed bonus) for any completed year and accrued and unused vacation, in each case in a lump sum, and other vested benefits under DCI s welfare and benefit plans. If such termination was effected by Discovery for cause, or by Mr. Zaslav other than for good reason (including on retirement), Mr. Zaslav forfeits all rights under his DAP awards (regardless of whether all or any portion of the award is then vested or unvested).

The following table summarizes the potential benefits to Mr. Zaslav had termination of his employment occurred under any of the circumstances described above as of December 31, 2007:

Event	**Bonus Payment ($)**	**Continued Salary ($)***	**Continued Bonus ($)***	**Value of DAP Awards ($)**	**COBRA Premiums ($)***
By Discovery Other than for Death, Disability or Cause; By Mr. Zaslav for Good Reason	3,000,000	6,000,000	9,000,000	38,782,000	27,190
By Discovery Other than for Cause or By Mr. Zaslav for Good Reason, within 1 year of a Change in Control	3,000,000	6,000,000	9,000,000	38,782,000	27,190
Death or Disability	3,000,000			38,782,000	27,190

By Discovery for Cause; By
Mr. Zaslav Other than for Good
Reason

* Payable over the course of the severance period

Mark G. Hollinger

Mr. Hollinger does not have an employment agreement with Discovery. On termination of his employment, he would be entitled to payment for any vested portions of his DAP awards (unless he is terminated by Discovery for cause, in which case he would forfeit all his DAP awards) and, in limited circumstances, for any unvested portion of his DAP awards, in each case, as provided by the terms of the DAP.

If Mr. Hollinger voluntarily terminates his employment (other than for retirement) and signs a general release that includes a covenant not to compete and abides by such agreements, he is entitled to receive 100% of the value of his vested DAP units (as shown below). If Mr. Hollinger does not sign a general release or does not abide by the agreements, he is entitled to receive 75% of the value of his vested DAP units. See Compensation Discussion and Analysis Elements of Compensation Discovery Appreciation Program for a description of the accelerated vesting of the DAP awards upon retirement.

Mr. Hollinger would also be entitled to the amount payable under the ICP. Under Discovery s policies that govern the ICP, if Mr. Hollinger is terminated after September 30 (other than for cause), he is entitled to a pro-rated ICP award. For purposes of determining the amount of the ICP award, the individual performance multiplier is 1.0. If Mr. Hollinger voluntarily terminates his employment prior to payment of the award, he would forfeit all rights under the ICP.

The following table summarizes the potential benefits to Mr. Hollinger had termination of his employment occurred under any of the circumstances described above as of December 31, 2007:

Event	**Value of DAP Awards ($)**	**ICP Payment ($)**
By Discovery for Death or Disability; By Discovery other than for Cause within 1 year of a Change in Control	9,514,621	$ 729,863
By Discovery for Cause		
By Mr. Hollinger; By Discovery other than for Cause, Death or Disability	5,302,641	

Roger F. Millay

In the beginning of January 2008, Mr. Millay announced his intention to leave Discovery and entered into a retention agreement with Discovery, which provides for the terms on which he will be retained as Senior Executive Vice President and Chief Financial Officer through September 30, 2008, unless Discovery selects an earlier departure date. The severance provisions of the retention agreement supersede those contained in Mr. Millay s employment agreement to the extent the retention agreement addresses the same circumstances. Otherwise, the provisions of the employment agreement remain applicable. Mr. Millay s final departure date is July 25, 2008.

Under the terms of the retention agreement, Mr. Millay will receive his base salary through September 30, 2008, regardless of the date of final termination, as well as a retention payment of $1.5 million, to be paid within 30 days of his final departure date. Mr. Millay will also be entitled to receive payment for his vested DAP awards within 60 days after his departure, valued as of his final departure date in accordance with the plan. His unvested DAP awards will not accelerate.

The retention agreement entitles Mr. Millay to receive a payment under the ICP for 2007, based on an individual performance multiplier of 1.0. For more information about the 2007 ICP awards, please see Compensation Discussion and Analysis Elements of Compensation Incentive Compensation Program. The retention agreement also entitles Mr. Millay to receive a prorated payment under the ICP for 2008 in the amount of $247,500 (based on a 9-month retention period). This lump sum is payable within 30 days of his final departure date.

Under the retention agreement, as a condition to receiving all payments described above, Mr. Millay would be required to (i) devote his full and undivided efforts to Discovery and perform at a level expected of a chief financial officer, (ii) participate in all financial functions relating to Discovery s corporate restructuring, (iii) cooperate with any transition plan and ensure that the financial functions are performed during the retention period and (iv) adhere to all legal responsibilities and Discovery s practices regarding confidentiality. Mr. Millay would also be required to execute a general release in favor of Discovery as well as a mutual non-disparagement agreement. The retention agreement provides that Discovery has authority and sole discretion to certify that Mr. Millay has fully and professionally complied with all of the conditions for the retention payment, and that Discovery will exercise such discretion prudently and in good faith and will not deny Mr. Millay payments set forth in the retention agreement without cause.

Notwithstanding the foregoing, if Mr. Millay s employment were to terminate by reason of death or disability, under the terms of the DAP, any unvested units credited to him will become 100% vested and all vested units will be paid out in a single lump sum payment. In the case of his disability only, Mr. Millay is also entitled to the continuance of his coverage under Discovery s relevant medical or disability plans to the extent permitted by such plans and to the extent these benefits are provided generally to similarly situated Discovery executives.

The following table summarizes the potential benefits to Mr. Millay under his retention agreement had termination of his employment occurred under any of the circumstances listed below as of December 31, 2007:

Event	**Salary ($)**	**Retention Payment ($)**	**Prorated 2008 ICP Payment ($)**	**Value of DAP Awards ($)**
Pursuant to Retention Agreement	416,730	1,500,000	247,500	1,907,906
Death				7,631,625
Disability				7,631,625

Bruce L. Campbell

<u>By Discovery Other than for Death, Disability or Cause; By Mr. Campbell for Good Reason</u>. If Mr. Campbell s employment is terminated by Discovery other than for death, disability or cause or by Mr. Campbell for good reason, including a successor s failure to assume his employment agreement following a change of control (in each case, as defined therein), Mr. Campbell s employment agreement entitles him to receive payments for the following:

(1) an amount, payable in a lump sum, equal to his annual base salary and his target level annual bonus (which is 75% of his then-base salary) for the balance of the then-applicable term of employment, which in no event shall be less than one year;

(2) payment, in a lump sum, for all of his vested DAP awards; and

(3) payment, within 60 days of the end of the then-applicable employment term, for the unvested DAP awards, based on what those awards would have been worth had they vested according to their terms and been valued using the last day of the then-applicable employment term as of the relevant termination date.

His original employment term ends March 18, 2011, and each extension term would last one year.

Notwithstanding the foregoing, in the event Mr. Campbell s employment is terminated by Discovery not for cause , if Discovery has a standard severance policy at the time of termination which would provide Mr. Campbell with a higher sum than these arrangements, Mr. Campbell will be entitled to such higher sum.

As a condition to receiving the severance payments described above, Mr. Campbell would be required to sign a general release and, if such termination occurs during the original employment term, continued compliance with his non-competition covenant.

<u>*By Discovery for Cause; By Mr. Campbell Other than for Good Reason*</u>. If Mr. Campbell s employment is terminated by Discovery for cause or by Mr. Campbell other than for good reason (including retirement) (in each case, as defined therein), Mr. Campbell forfeits all rights under his DAP awards (regardless of whether all or any portion of the award is then vested or unvested.

<u>*By Reason of Death or Disability*</u>. If Mr. Campbell s employment terminates by reason of his death or disability, Mr. Campbell will not be entitled to any further payments or benefits from Discovery, other than payment for his DAP awards, in a lump sum, in accordance with the terms of the DAP (which provide for acceleration of vesting in such event), and in the case of his disability only, the continuance of his coverage under Discovery s relevant medical or disability plans, to the extent permitted by such plans and to the extent these benefits are provided generally to similarly situated Discovery executives.

Upon Discovery s Election Not to Extend Term. If Discovery exercises its option to not extend Mr. Campbell s employment beyond the then-current term, Mr. Campbell s employment agreement entitles him to receive payments for the following:

(1) an amount, payable in a lump sum, equal to one full year of his then-annual base salary and his then-target level annual bonus (which is 75% of his then-base salary); and

(2) payment, in a lump sum, for all of his vested DAP awards.

The following table summarizes the potential benefits to Mr. Campbell had termination of his employment occurred under any of the circumstances described above as of December 31, 2007:

Event	Salary ($)	Bonus ($)	Value of DAP Awards ($)
By Discovery Other than for Death, Disability or Cause; By Mr. Campbell for Good Reason	2,572,040	1,929,030	5,526,850
By Discovery for Cause; By Mr. Campbell Other than for Good Reason, including on retirement			
Death			5,526,850
Disability			5,526,850

Defined Terms

As noted above, the DAP and the employment agreements with Mr. Zaslav and Mr. Campbell include definitions of various terms relevant to determining whether amounts will be paid. Set forth below is a summary of the more significant defined terms.

Discovery Appreciation Plan (DAP). Under the terms of the DAP, cause means the commission of any of the following acts: (i) disorderly conduct; (ii) reporting to work under the influence of alcohol or illegal drugs, or abuse of alcohol or use of illegal drugs on Discovery premises or while on Discovery business, or use outside of the Discovery premises which impairs the employee s ability to perform his or her work; (iii) committing or attempting to commit deliberate damage to Discovery property, misuse of Discovery property, advocating or taking part in seizure or theft of, or trespassing on, Discovery property; (iv) failing to observe established safety rules or participating in activities which would endanger the safety of others or damage the property or inventory of Discovery; (v) dishonesty or any act reflecting negatively on the good reputation of Discovery; (vi) obtaining employment on the basis of false or misleading information; (vii) falsifying time sheets, attendance, or other Discovery records; (viii) being absent from work without proper authority; or (ix) consistent with the general policies and practices of Discovery, such other acts as may be determined by Discovery in its sole discretion.

Under the terms of the DAP, change in control means (i) the merger, consolidation or reorganization of Discovery with any other company (or the issuance by Discovery of its voting securities as consideration in a merger, consolidation or reorganization of a subsidiary with any other company) other than such a merger, consolidation or reorganization which would result in the voting securities of Discovery outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the other entity) at least fifty percent of the combined voting power of the voting securities of Discovery or such other entity outstanding immediately after such merger, consolidation or reorganization, provided that DHC or Advance Newhouse Communications (and their respective affiliates) shall hold, in the aggregate, at least fifty percent of the voting power of the voting securities of Discovery; (ii) the approval by the shareholders of Discovery of a plan of complete liquidation of Discovery or an agreement for the sale or disposition by Discovery of all or substantially all of Discovery s assets, other than any such sale or disposition to an entity at least fifty percent of the combined voting power of the voting securities of which is owned immediately after the sale or disposition by DHC or Advance Newhouse Communications (and their respective affiliates); or (iii) any sale, transfer or issuance of voting securities of Discovery (including any series of related transactions) as a result of which DHC or Advance Newhouse Communications (and their respective affiliates) shall cease to hold, in the aggregate, directly or indirectly, at least fifty percent of the voting power of the voting securities of Discovery.

David Zaslav Employment Agreement. Under the terms of David Zaslav s employment agreement, cause means (i) willful malfeasance by Mr. Zaslav in connection with his employment, including embezzlement, misappropriation of funds, property or corporate opportunity or material breach of his employment agreement, as determined by the Board after investigation, notice to Mr. Zaslav of the charge and provision to him of an opportunity to respond; (ii) if Mr. Zaslav commits any act or becomes involved in any situation or occurrence involving moral turpitude, which is materially damaging to the business or reputation of Discovery; or (iii) if Mr. Zaslav is convicted of, or pleads guilty or nolo contendre to, fails to defend against, or is indicted for a felony or a crime involving moral turpitude.

Under the terms of Mr. Zaslav s employment agreement, good reason means (1) reduction of Mr. Zaslav s base salary; (2) material reduction in the amount of the annual bonus which he is eligible to earn; (3) relocation of his primary office at Discovery to a facility or location that is more than forty (40) miles away from his primary office location immediately prior to such relocation and is further away from his residence, provided that a relocation to midtown Manhattan, New York shall not constitute good reason; (4) material reduction of his duties; or (5) material breach of his employment agreement.

Under the terms of Mr. Zaslav s employment agreement, change in control means (A) the merger, consolidation or reorganization of Discovery with any other company (or the issuance by Discovery of its voting securities as consideration in a merger, consolidation or reorganization of a subsidiary with any other company) other than such a merger, consolidation or reorganization which would result in the voting securities of Discovery outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the other entity) at least 50% of the combined voting power of the voting securities of Discovery or such other entity outstanding immediately after such merger, consolidation or reorganization, provided that DHC, Cox Communications, Inc. or Advance Newhouse Communications (and their respective affiliates) shall hold, in the aggregate, at least 50% of the voting power of the voting securities of Discovery; (B) the consummation by Discovery of a plan of complete liquidation of Discovery or an agreement for the sale, or disposition by Discovery of all or substantially all of Discovery s assets, other than any such sale or disposition to an entity at least 50% of the combined voting power of the voting securities of which is owned immediately after the sale or disposition by DHC, Cox Communications, Inc. or Advance Newhouse Communications (and their respective affiliates); or (C) any sale, transfer or issuance of voting securities of Discovery (including any series of related transactions) as a result of which DHC, Cox Communications, Inc. or Advance Newhouse Communications (and their respective affiliates) shall cease to hold, in the aggregate, directly or indirectly, at least 50% of the voting power of the voting securities of Discovery.

Bruce Campbell Employment Agreement. Under the terms of Bruce Campbell s employment agreement, termination for cause occurs in the event that Mr. Campbell (a) is convicted of any felony, any lesser crime of sufficient import that materially discredits or materially and adversely affects Discovery s reputation or ability to conduct its business in the normal course, or any substantial offense involving the property of Discovery or any of its subsidiaries or affiliates (e.g., theft, conversion, destruction of property, tampering with Discovery s computer system), (b) engages in willful misconduct or neglect in connection with the performance of Mr. Campbell s duties that has a materially adverse effect on Discovery, or (c) engages in other conduct that constitutes a breach of his employment agreement.

Under the terms of Mr. Campbell s employment agreement, good reason means (a) his demotion or a material reduction in his duties, responsibilities or authority; (b) Discovery s material change in the location of the Discovery office where Mr. Campbell works (e.g., not relocation to another location in New York, New York); (c) a material breach of Mr. Campbell s employment agreement by Discovery; (d) a change of control of Discovery where the successor does not assume Mr. Campbell s employment agreement; (e) a reduction in base salary or target bonus opportunity; (f) a change in the DAP which reduces Mr. Campbell s potential benefits thereunder; and (g) a change in the position to whom Mr. Campbell reports.

Under the terms of Mr. Campbell s employment agreement, a change in control shall be deemed to occur upon (i) the dissolution, liquidation or sale of all or substantially all of the assets of Discovery; (ii) a merger or consolidation in which Discovery is not the sole surviving corporation; (iii) a reverse merger in which Discovery is the surviving corporation but the shares of Discovery s common stock immediately preceding the merger are converted by virtue of the merger into other property; (iv) the consummation of a transaction or series of transactions (other than an offering of stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any person or related group of persons (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) other than Discovery, any of its subsidiaries, an employee benefit plan maintained by Discovery or any of its subsidiaries or a person that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, Discovery directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of Discovery possessing more than 50% of the total combined voting power of Discovery s securities outstanding immediately after such acquisition; or (v) the sale or other disposition of all or substantially all the assets of Discovery.

Compensation of Directors

In accordance with existing practice of DHC, it is expected that directors of New Discovery who are also employees of New Discovery will receive no additional compensation for their services as directors. Each non-employee director of New Discovery will receive compensation for services as a director of New Discovery and, if applicable, for services as a member of any board committee, as will be determined by New Discovery s board of directors.

It is expected that in connection with the Transaction, the Discovery Holding Company 2005 Nonemployee Director Incentive Plan will be assumed by New Discovery. Under this plan (as so assumed), it is expected that New Discovery will provide equity incentive awards, including stock options, restricted shares, stock appreciation rights and performance awards, to its nonemployee directors following the closing of the Transaction. The plan is designed to provide awards in those circumstances in which either (i) the award would help better align the interests of a recipient with those of the stockholders and help motivate the recipient to increase the value of the company for the stockholders or (ii) the award would assist the company in attracting non-employees directors.

For information concerning the compensation policy for directors of DHC, see Management of DHC Director Compensation Table.

Certain Relationships and Related Transactions

Michael J. Donohue, the brother-in-law of John Hendricks, has been employed by Discovery since 1983, shortly after the founding of the company by Mr. Hendricks in 1982. In connection with the Transaction, Mr. Hendricks will become the Chairman of the Board and a director of New Discovery. Mr. Donohue currently serves as Director of Credit Risk and Analysis in Discovery s finance department. For 2007, Mr. Donohue received cash compensation of approximately $164,000 (which includes base salary, incentive compensation under the ICP and payments under the DAP). On vesting of his DAP units in 2007, Mr. Donohue received 3,750 additional DAP units. Mr. Donohue participates in Discovery s employee benefit programs on the same basis as other employees at his level in the company.

Mr. Hendricks is involved in a leadership role with numerous nonprofit organizations, many of which have missions that are aligned with Discovery s business philosophy. Mr. Hendricks and the John and Maureen Hendricks Charitable Foundation provide significant funding to these organizations and Discovery also has made charitable contributions or payments to these organizations. In 2007, amounts in excess of $120,000 were contributed or paid by Discovery to the following organizations in which Mr. Hendricks serves as a director or in another leadership role as indicated.

> Discovery Channel Global Education Partnership (**DCGEP)** (Director and Chairman). Discovery s cash and in-kind contributions totaled $1,386,641 in 2007. The DCGEP is a nonprofit organization that provides educational media and television services to schools in third-world countries with an emphasis in Africa. Discovery is a founding member and other companies and individuals also make contributions to the DCGEP.

Lowell Observatory (Member of non-governing Advisory Council). Lowell Observatory is a nonprofit astronomical research organization. Discovery is the named sponsor of the next-generation Lowell telescope, which is known as The Discovery Channel Telescope. Discovery provided a 10-year grant of

$10 million, $8 million of which has been paid to date ($2 million was paid in 2007) and $2 million of which will be payable in 2008. Discovery has naming rights to the telescope and is a media partner for the telescope, its discoveries and related public educational outreach activities.

American Film Institute (**AFI**) (Member of Board of Governors). Discovery and AFI collaborate on the annual SilverDocs Film Festival, a documentary festival, which AFI and Discovery jointly created. As part of the partnership effort to fund and operate the annual SilverDocs Film Festival, Discovery makes cash payments each year. The cash payments totaled $830,244 in 2007.

Mr. Hendricks s personal investment business, HIH, previously leased office space from Discovery and received information technology and various other support services from Discovery. In early 2007, HIH moved these activities to other office space located near the Discovery headquarters building. Co-located at the HIH offices are The John and Maureen Hendricks Charitable Foundation. At the new location, Discovery continues to provide various support services to HIH, including administrative, technology and office support services. HIH reimburses Discovery for its incremental costs for these services. In 2007, total costs incurred by Discovery and billed to HIH for these services were $245,411.

Steve Sidel, the son-in-law of Mr. Robert J. Miron and the brother-in-law of Mr. Steven Miron (who will be directors of New Discovery), has been employed by Discovery for approximately 11 years and is currently employed in Discovery s Education division. For 2007, Mr. Sidel received cash compensation of approximately $864,000 (which includes base salary, incentive compensation under the ICP and payments under the DAP). On vesting of his DAP units in 2007, Mr. Sidel received 25,000 additional DAP units. Mr. Sidel participates in Discovery s employee benefit programs on the same basis as other employees at his level in the company.

The operating agreement of Discovery Communications Holding requires that DHC and Advance/Newhouse approve all transactions between (i) Discovery Communications Holding and any of its subsidiaries, including Discovery, and (ii) DHC, Advance/Newhouse or Mr. Hendricks or their affiliates or family members, including the amendment of any currently outstanding agreement. Except as described below, the members of Discovery review and approve related party transactions to which Discovery is a party. Although the members have generally approved the initial hiring of the family members described above (except Mr. Donohue who was hired shortly after the company was founded) and the initial relationship with the nonprofit organizations described above, the members have generally not formally approved Discovery s ongoing relationships with these family members and nonprofit organizations. Following completion of the Transaction, it is anticipated that related person transactions (as defined in the SEC s rules) in which New Discovery is a participant will be subject to review and approval in accordance with New Discovery s Corporate Governance Guidelines. Because New Discovery s Corporate Governance Guidelines will be adopted by the new Board of Directors following completion of the Transaction, the standards for review and approval of related person transactions have not been determined as of the date of this proxy statement/prospectus.

Director Independence

In accordance with the existing policy of DHC regarding director independence, it is expected that a majority of the members of New Discovery s board of directors be independent of its management. For a director to be deemed independent, New Discovery s board of directors will have to affirmatively determine that the director has no direct or indirect material relationship with New Discovery. To assist its board of directors in determining which of its directors qualify as independent, New Discovery will apply The Nasdaq Stock Market listing standards as well as applicable rules and regulations adopted by the SEC. For information concerning DHC s current criteria for director independence, see Management of DHC Director Independence.

In accordance with these criteria, it is expected that New Discovery s board of directors will determine that each of Paul A. Gould, M. LaVoy Robison, J. David Wargo, Robert J. Miron, Robert R. Beck, Lawrence S. Kramer and Steven A. Miron will qualify as an independent director of New Discovery.

Committees of the Board of Directors

Persons serving on the committees of New Discovery s board of directors will be determined by the board of New Discovery following the completion of the Transaction.

Pro Forma Security Ownership Information of Certain Beneficial Owners and Management of New Discovery

Pro Forma Security Ownership of Certain Beneficial Owners of New Discovery

The following table sets forth information, to the extent known by New Discovery or ascertainable from public filings, with respect to the estimated beneficial ownership of each person or entity (other than certain of the New Discovery directors and executive officers, whose pro forma ownership information follows) who is expected to beneficially own more than five percent of the outstanding shares of New Discovery, assuming that the Transaction had been effected on June 30, 2008.

If the Transaction is effected, each share of DHC Series A common stock will be converted into 0.50 share of New Discovery Series A common stock and 0.50 share of New Discovery Series C common stock, and each share of DHC Series B common stock will be converted into 0.50 share of New Discovery Series B common stock and 0.50 share of New Discovery Series C common stock.

The security ownership information for New Discovery common stock has been estimated based upon outstanding stock information for DHC common stock as of June 30, 2008, and in the case of percentage ownership information, has been estimated based upon 134,029,819 shares of New Discovery Series A common stock, 6,599,118 shares of New Discovery Series B common stock and 140,628,937 shares of New Discovery Series C common stock estimated to have been issued in the Transaction.

The voting percentages in the table represent the power of the holders to vote on all matters other than the election of directors. As the holder of the New Discovery convertible preferred stock, Advance/Newhouse will be entitled to vote, on an as-converted basis, with the holders of New Discovery common stock on such matters. With respect to the election of common stock directors, the voting percentages represented by the shares included in the table (other than those beneficially owned by Advance/Newhouse) would be significantly higher because Advance/Newhouse, which will be the holder of the New Discovery convertible preferred stock, will not vote in this election. Conversely, the holders of New Discovery common stock do not vote in the election of preferred stock directors.

So far as is known to New Discovery, the persons indicated below would have sole voting power with respect to the shares estimated to be owned by them, except as otherwise stated in the notes to the table.

Name and Address of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class	Voting Power
Advance/Newhouse	Series A	71,033,461(1)	34.6%	26.2%
Programming Partnership	Series C	71,033,461(1)	33.6%	
5000 Campuswood Drive				
E. Syracuse, NY 13057				
Harris Associates L.P.	Series A	13,468,525(2)	10.0%	6.7%

Two North LaSalle Street Suite 500 Chicago, IL 60602	Series C	13,468,525(2)	9.6%	
T. Rowe Price Associates, Inc.	Series A	7,745,636(3)	5.8%	3.9%
100 E. Pratt Street Baltimore, MD 21202	Series C	7,745,636(3)	5.5%	

(1) Includes the number of shares of common stock issuable upon conversion of the shares of New Discovery Series A convertible preferred stock and New Discovery Series C convertible preferred stock estimated to be held by Advance/Newhouse upon the closing of the Transaction. The convertible preferred stock may be converted at any time at the option of the holder and in certain other circumstances. Also includes 718,993 shares of New Discovery Series A convertible preferred stock and 718,993 shares of New Discovery Series C convertible preferred stock that may be issued to Advance/Newhouse in the Transaction as a result of the number of shares of

New Discovery common stock subject to options and stock appreciation rights immediately after the closing. These shares of New Discovery Series A convertible preferred stock and New Discovery Series C convertible preferred stock will be subject to an escrow agreement between New Discovery and Advance/Newhouse and are subject to change depending on the number of options to acquire DHC common stock outstanding immediately prior to the completion of the Transaction and the trading prices of the Discovery common stock prior to the closing of the Transaction and the trading prices of the New Discovery common stock and AMC common stock after the Transaction. For a description of the Escrow Agreement, see The Transaction Agreements Escrow Agreement , and for a description on treatment of outstanding DHC options in the merger, see The Transaction Agreements Merger Agreement Treatment of Stock Options.

(2) See footnote (1) to the Security Ownership of Certain Beneficial Owners table under Management of DHC Security Ownership of Certain Beneficial Owners and Management.

(3) See footnote (2) to the Security Ownership of Certain Beneficial Owners table under Management of DHC Security Ownership of Certain Beneficial Owners and Management.

Pro Forma Security Ownership of New Discovery Management

The following table sets forth information with respect to the estimated beneficial ownership by each person who is expected to serve as an executive officer or director of New Discovery and all of such persons as a group of shares of New Discovery Series A common stock, New Discovery Series B common stock and New Discovery Series C common stock, assuming that the Transaction had been effected on June 30, 2008.

If the Transaction is effected, each share of DHC Series A common stock will be converted into 0.50 share of New Discovery Series A common stock and 0.50 share of New Discovery Series C common stock, and each share of DHC Series B common stock will be converted into 0.50 share of New Discovery Series B common stock and 0.50 share of New Discovery Series C common stock.

The security ownership information for New Discovery common stock has been estimated based upon outstanding stock information for DHC common stock as of June 30, 2008, and in the case of percentage ownership information, has been estimated based upon 134,029,819 shares of New Discovery Series A common stock, 6,599,118 shares of New Discovery Series B common stock and 140,628,937 shares of New Discovery Series C common stock estimated to have been issued in the Transaction.

Shares of DHC common stock issuable upon exercise or conversion of options, warrants and convertible securities that were exercisable or convertible on or within 60 days after June 30, 2008, are deemed to be outstanding and to be beneficially owned by the person holding the options, warrants or convertible securities for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. For purposes of the following presentation, beneficial ownership of shares of New Discovery Series B common stock, though convertible on a one-for-one basis into shares of New Discovery Series A common stock, is reported as beneficial ownership of New Discovery Series B common stock only, and not as beneficial ownership of New Discovery Series A common stock, but the voting power of the New Discovery Series A and Series B common stock have been aggregated.

The voting percentages in the table represent the power of the holders to vote on all matters other than the election of directors. The holders of New Discovery convertible preferred stock are entitled to vote, on an as-converted basis, with the holders of New Discovery common stock on such matters. With respect to the election of common stock directors, the voting percentages represented by the shares included in the table would be significantly higher because the holders of New Discovery convertible preferred stock do not vote in this election. Conversely, the holders of New

Discovery common stock do not vote in the election of preferred stock directors.

So far as is known to New Discovery, the persons indicated below would have sole voting power with respect to the shares estimated to be owned by them, except as otherwise stated in the notes to the table.

Name of Beneficial Owner	**Title of Class**	**Amount and Nature of Beneficial Ownership (In thousands)**	**Percent of Class**	**Voting Power**
David M. Zaslav	Series A			
Chief Executive Officer,	Series B			
President and Director	Series C			
Mark G. Hollinger	Series A		*	*
Chief Operating Officer and	Series B			
Senior Executive Vice President	Series C			
Bradley E. Singer	Series A			
Senior Executive Vice President,	Series B			
Chief Financial Officer	Series C			
Joseph A. LaSala, Jr.	Series A			
Senior Executive Vice President,	Series B			
General Counsel & Secretary	Series C			
Adria Alpert Romm	Series A			
Senior Executive Vice President,	Series B			
Human Resources	Series C			
Bruce L. Campbell	Series A			
President, Digital Media and	Series B			
Corporate Development	Series C			
John S. Hendricks	Series A			
Chairman of the Board	Series B			
and Director	Series C			
John C. Malone	Series A	1,128(1)	*	23.0%
Director	Series B	6,094(2)	92.3%	
	Series C	7,222(1)	5.1%	
Robert R. Bennett	Series A	164(3)	*	4.1%
Director	Series B	834(4)	11.2%	
	Series C	998(3)	*	
Paul A. Gould	Series A	120(5)	*	*
Director	Series B	88	1.3%	
	Series C	208(5)		
Robert J. Miron	Series A			
Director	Series B			
	Series C			
M. LaVoy Robison	Series A	7(5)	*	*
Director	Series B			
	Series C	7(5)		
J. David Wargo	Series A	10(6)	*	*
Director	Series B			

	Series C	10(6)		
Robert R. Beck	Series A	21	*	*
Director	Series B	11	*	
	Series C	32	*	
Lawrence S. Kramer	Series A			
Director	Series B			
	Series C			
Steven A. Miron	Series A			
Director	Series B			
	Series C			

Name of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership (In thousands)	Percent of Class	Voting Power
All directors and executive officers as a Group (16 persons)	Series A	1,450	1.1%	27.3%
	Series B	7,027	94.6%	
	Series C	8,477	6.3%	

* Less than one percent

(1) See footnotes (1) and (2) to the Security Ownership of Management table under Management of DHC Security Ownership of Certain Beneficial Owners and Management.

(2) See footnote (1) to the Security Ownership of Management table under Management of DHC Security Ownership of Certain Beneficial Owners and Management.

(3) See footnotes (3), (4) and (5) to the Security Ownership of Management table under Management of DHC Security Ownership of Certain Beneficial Owners and Management.

(4) See footnotes (3) and (5) to the Security Ownership of Management table under Management of DHC Security Ownership of Certain Beneficial Owners and Management.

(5) See footnote (3) to the Security Ownership of Management table under Management of DHC Security Ownership of Certain Beneficial Owners and Management.

(6) See footnotes (3) and (6) to the Security Ownership of Management table under Management of DHC Security Ownership of Certain Beneficial Owners and Management.

DHC ANNUAL STOCKHOLDER MEETING AND PROXY SOLICITATIONS

DHC ANNUAL MEETING

Time, Place & Date

September 16, 2008
9 a.m., local time
Starz Entertainment, LLC
8900 Liberty Circle
Englewood, Colorado 80112
Tel. No. (720) 852-7700

The Annual Meeting may be adjourned or postponed to another date, time or place for proper purposes, including for the purpose of soliciting additional proxies.

Purposes

To consider and vote on the merger proposal;

To consider and vote on the preferred stock issuance proposal;

To consider and vote on the re-election of John C. Malone and Robert R. Bennett as Class III directors pursuant to the election of directors proposal;

To consider and vote on the auditors ratification proposal; and

To transact other business as may properly be presented at the Annual Meeting or any postponements or adjournments thereof.

At the present time, DHC knows of no other matters that will be presented at the Annual Meeting.

Quorum

In order to carry on the business of the Annual Meeting, DHC must have a quorum present. This means that at least a majority of the aggregate voting power represented by the outstanding shares of DHC common stock, as of the record date, must be represented at the Annual Meeting, either in person or by proxy. For purposes of determining a quorum, your shares will be included as represented at the meeting even if you indicate on your proxy that you abstain from voting. In addition, if a broker, who is a record holder of shares, indicates on a form of proxy that the broker does not have discretionary authority to vote those shares on any proposal, or if those shares are voted in circumstances in which proxy authority is defective or has been withheld with respect to any proposal, these shares (which we refer to as **broker non-votes**) will be treated as present for purposes of determining the presence of a quorum. See Voting Procedures for Shares Held in Street Name Effect of Broker Non-Votes below.

Record Date	5:00 p.m., New York City time, on August 5, 2008
Shares Entitled to Vote	Holders of DHC Series A common stock and DHC Series B common stock, as recorded in DHC s stock register as of the record date for the Annual Meeting, may vote at the Annual Meeting.
Votes You Have	At the Annual Meeting, holders of DHC Series A common stock will have one vote for each share of DHC Series A common stock that DHC s records show they owned as of the record date for the Annual Meeting.
	At the Annual Meeting, holders of DHC Series B common stock will have ten votes for each share of DHC Series B common stock that DHC s records show they owned as of the record date for the Annual Meeting.

Recommendation of the Board of Directors

Transaction proposals. DHC s board of directors (and, with respect to DHC incentive plan concerns, the compensation committee of the DHC board) has unanimously approved the Transaction, including the Transaction Agreement, the merger agreement, the merger, the preferred stock issuance, the terms of New Discovery s charter and the amendment and restatement of the DHC incentive plan and determined that the Transaction is advisable and in the best interests of DHC and its stockholders. Accordingly, DHC s board of directors recommends that DHC stockholders vote **FOR** each of the transaction proposals.

Annual Business Proposals. DHC s board of directors has also approved the annual business proposals. Accordingly, DHC s board of directors recommends that DHC stockholders vote **FOR** each of the annual business proposals.

Votes Required

Transaction proposals. Approval of each of the merger proposal, preferred stock issuance proposal and authorized stock proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the DHC Series A common stock and DHC Series B common stock outstanding as of the record date for the Annual Meeting, voting together as a single class.

Approval of the incentive plan proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of DHC common stock outstanding on the record date for the Annual Meeting and present at the Annual Meeting, in person or by proxy, voting together as a single class.

The directors and executive officers of DHC, who as of June 30, 2008 together beneficially own shares of DHC common stock representing approximately 34.4% of DHC s aggregate voting power, have indicated to DHC that they intend to vote **FOR** the transaction proposals at the Annual Meeting.

Annual Business Proposals. The election of each of Messrs. Malone and Bennett as Class III directors pursuant to the election of directors proposal requires the affirmative vote of the holders of a plurality of the votes of the shares of DHC Series A common stock and DHC Series B common stock outstanding on the record date and present, in person or by proxy, and voting at the Annual Meeting, in person or by proxy.

Approval of the DHC auditors ratification proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of DHC Series A common stock and DHC Series B common stock outstanding on the record date for the Annual Meeting and present, in person or by proxy, at the Annual Meeting, voting together as a single class.

Shares Outstanding	As of the record date for the Annual Meeting, there were 268,059,637 shares of DHC Series A common stock and 13,198,236 shares of DHC Series B common stock outstanding and entitled to vote at the Annual Meeting.
Numbers of Holders	As of the record date for the Annual Meeting, there were approximately 3,000 record holders of DHC Series A common stock

and 140 record holders of DHC Series B common stock (which amounts do not include the number of stockholders whose shares are held of record by banks, brokers or other nominees, but include each such institution as one holder).

Voting Procedures for Record Holders

Holders of record of DHC common stock as of the record date for the Annual Meeting may vote in person thereat. Alternatively, they may give a proxy by completing, signing, dating and returning the proxy card that is being included with the mailing of this proxy statement/prospectus, or by voting by telephone or over the Internet. Instructions for voting by using the telephone or the Internet are printed on the proxy voting instructions attached to the proxy card. In order to vote via the Internet, have your proxy card available so you can input the required information from the card, and log into the Internet website address shown on the proxy card. When you log on to the Internet website address, you will receive instructions on how to vote your shares. The telephone and Internet voting procedures are designed to authenticate votes cast by use of a personal identification number, which will be provided to each voting shareholder separately.

Unless subsequently revoked, shares of DHC common stock represented by a proxy submitted as described below and received at or before the Annual Meeting will be voted in accordance with the instructions on the proxy.

YOUR VOTE IS IMPORTANT. It is recommended that you vote by proxy even if you plan to attend the Annual Meeting. You may change your vote at the Annual Meeting. To submit a written proxy by mail, you should complete, sign, date and mail the proxy in accordance with its instructions.

If any other matters are properly presented before the Annual Meeting, the persons you choose as proxies will have discretion to vote or to act on these matters according to their best judgment, unless you indicate otherwise on your proxy.

If a proxy is signed and returned by a DHC record holder without indicating any voting instructions, the shares of DHC common stock represented by the proxy will be voted **FOR** the approval of each of the transaction proposals and **FOR** the approval of each of the annual business proposals.

If a proxy is signed and returned by a DHC record holder and the DHC record holder indicates that it is abstaining from voting, the proxy will have the same effect as a vote **AGAINST** each of the transaction proposals and the auditors ratification proposal, but it will have no effect on the vote on the election of directors proposal.

Failure of a DHC record holder to submit a proxy representing shares of DHC common stock or vote in person at the Annual Meeting will have the same effect as a vote **AGAINST** each of the merger proposal, preferred stock issuance proposal and authorized stock proposal but it will have no effect on the vote on the incentive plan proposal or either of the annual business proposals.

Voting Procedures for Shares Held in Street Name

General

If you hold your shares in the name of a bank, broker or other nominee, you should follow the instructions provided by your bank, broker or nominee when voting your shares of DHC common stock or when granting or revoking a proxy. If you do not provide voting instructions to your broker, your broker may, in their discretion, vote your shares of DHC common stock on the election of directors proposal and the auditors ratification proposal. However, absent specific instructions from you, your broker is not permitted to vote your shares of DHC common stock on any of the transaction proposals.

Effect of Broker Non-Votes

Broker non-votes will be counted as present and represented at the Annual Meeting but will not be voted on any of the enumerated proposals or any other matter submitted to stockholders.

Shares represented by broker non-votes will be deemed shares not entitled to vote and will not be included for purposes of determining the aggregate voting power and number of shares present and entitled to vote on the annual business proposals or the incentive plan proposal. As a result, broker non-votes will have no effect on any of the annual business proposals or the incentive plan proposal. However, a broker non-vote will have the same effect as a vote **AGAINST** each of the merger proposal, the preferred stock issuance proposal and the authorized stock proposal.

YOUR VOTE IS IMPORTANT.

Revoking a Proxy

Before your proxy is voted, you may change your vote by telephone or over the Internet (if you originally voted by telephone or over the Internet), by voting in person at the Annual Meeting or by delivering a signed proxy revocation or a new signed proxy with a later date to Discovery Holding Company, c/o Computershare Trust Company, N.A., P.O. Box 43102, Providence, Rhode Island 02940. Any signed proxy revocation or new signed proxy must be received before the start of the Annual Meeting.

Your attendance at the Annual Meeting will not, by itself, revoke your proxy.

If your shares are held in an account by a broker, bank or other nominee, you should contact your broker, bank or other nominee to change your vote.

Solicitation of Proxies

The accompanying proxy for the Annual Meeting is being solicited on behalf of DHC s board of directors. In addition to this mailing, DHC s employees may solicit proxies personally, electronically or by telephone. DHC pays the cost of soliciting these proxies. DHC also reimburses brokers and other nominees for their expenses in sending these materials to you and getting your voting instructions.

Auditors	KPMG LLP serves as DHC s independent auditors. A representative of KPMG is expected to attend the Annual Meeting with the opportunity to make a statement and/or respond to appropriate questions from DHC stockholders at the Annual Meeting.

DHC ANNUAL BUSINESS PROPOSALS

Election of directors proposal

Board of Directors

DHC s board of directors currently consists of five directors, divided among three classes. DHC s Class III directors, whose term will expire at the Annual Meeting, are John C. Malone and Robert R. Bennett. Mr. Malone and Mr. Bennett are nominated for re-election to DHC s board to continue to serve as Class III directors, and DHC has been informed that they are willing to continue to serve as directors of DHC. The term of the Class III directors who are elected at the Annual Meeting will expire at the annual meeting of DHC s stockholders in the year 2011. DHC s Class I director, whose term will expire at the annual meeting of DHC s stockholders in the year 2009, is J. David Wargo. DHC s Class II directors, whose term will expire in the year 2010, are Paul A. Gould and M. LaVoy Robison. The directors of each class will hold office until their respective death, resignation or removal and until their respective successors are elected and qualified. Set forth under Management of DHC Executive Officers and Directors is certain background information for the director nominees for re-election and the three directors of DHC whose terms of office will continue after the Annual Meeting.

The number of shares of DHC common stock beneficially owned by each director of DHC, as of June 30, 2008, is set forth in this proxy statement/prospectus under the caption Management of DHC Security Ownership of Certain Beneficial Owners and Management Security Ownership of Management.

If any nominee should decline re-election or should become unable to serve as a director of DHC for any reason before the Annual Meeting, votes in favor of that nominee will be cast for a substitute nominee, if any, designated by the DHC board of directors, or, if none is so designated prior to the election, votes will be cast according to the judgment of the person or persons voting the proxy.

Vote and Recommendation

A plurality of the affirmative votes of the shares of DHC common stock outstanding on the record date, voting together as a single class, that are voted in person or by proxy at the Annual Meeting is required to elect Mr. John C. Malone and Mr. Robert R. Bennett as Class III directors of DHC s board of directors.

The DHC board of directors recommends a vote ***FOR*** *the election of the nominees to DHC s board of directors.*

Auditors ratification proposal

DHC is asking its stockholders to ratify the selection of KPMG LLP as its independent auditors for the fiscal year ending December 31, 2008.

Even if the selection of KPMG LLP is ratified, the audit committee of DHC s board in its discretion may direct the appointment of a different independent accounting firm at any time during the year if DHC s audit committee determines that such a change would be in the best interests of DHC and its stockholders. In the event DHC stockholders fail to ratify the selection of KPMG LLP, DHC s audit committee will consider it as a direction to select other auditors for the year ending December 31, 2008.

Ratification of KPMG LLP as DHC s independent auditors for the year ending December 31, 2008 has no effect on the auditor selection of New Discovery, upon consummation of the Transaction, for the year ending December 31, 2008.

A representative of KPMG LLP is expected to be present at the Annual Meeting, will have the opportunity to make a statement if that representative so desires and will be available to respond to appropriate questions.

Audit Fees and All Other Fees

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of the annual financial statements of DHC, including its consolidated subsidiaries, for the fiscal years 2007 and 2006, and fees billed for other services rendered by KPMG LLP:

	2007	2006
Audit fees	$ 1,969,000	2,044,000
Audit related fees(1)	33,000	152,000
Audit and audit related fees	2,002,000	2,196,000
Tax fees(2)	527,000	283,000
Total fees	$ 2,529,000	2,479,000

(1) Audit related fees include fees incurred for due diligence related to potential business combinations and audits of financial statements of certain employee benefits plans.

(2) Tax fees consisted of tax compliance and consultations regarding the tax implications of certain transactions.

DHC s audit committee has considered whether the provision of services by KPMG LLP to DHC other than auditing is compatible with KPMG LLP maintaining its independence and believes that the provision of such other services is compatible with KPMG LLP maintaining its independence.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

DHC s audit committee has adopted a policy regarding the pre-approval of all audit and permissible non-audit services provided by DHC s independent auditor. Pursuant to this policy, DHC s audit committee has approved the engagement of DHC s independent auditor to provide the following services (all of which are collectively referred to as **pre-approved services**):

audit services as specified in the policy, including (i) financial audits of DHC and its subsidiaries, (ii) services associated with DHC s periodic reports, registration statements and other documents filed or issued in connection with a securities offering (including comfort letters and consents), (iii) attestations of DHC management s reports on internal controls and (iv) consultations with management as to accounting or reporting of transactions;

audit related services as specified in the policy, including (i) due diligence services, (ii) financial audits of employee benefit plans, (iii) attestation services not required by statute or regulation, (iv) certain audits incremental to the audit of DHC s consolidated financial statements and (v) closing balance sheet audits related to dispositions; and tax services as specified in the policy, including federal, state, local and international tax planning, compliance and review services, and tax due diligence and advice regarding mergers and acquisitions.

Notwithstanding the foregoing general pre-approval, any individual project involving the provision of pre-approved services that is expected to result in fees in excess of $40,000 requires the specific pre-approval of DHC s audit committee. In addition, any engagement of DHC s independent auditors for services other than the pre-approved services requires the specific approval of DHC s audit committee. DHC s audit committee has delegated the authority for the foregoing approvals to the chairman of the audit committee, subject to his subsequent disclosure to the entire audit committee of the granting of any such approval. M. LaVoy Robison currently serves as the chairman of the DHC audit committee.

DHC s pre-approval policy prohibits the engagement of DHC s independent auditor to provide any services that are subject to the prohibition imposed by Section 201 of the Sarbanes-Oxley Act.

All services provided by DHC s independent auditor during 2007 were approved in accordance with the terms of the policy.

Vote and Recommendation

The affirmative vote of the holders of a least a majority of the aggregate voting power of the shares of DHC common stock outstanding on the record date and present at the Annual Meeting, in person or by proxy, voting together as a single class, is required to ratify the selection of KPMG LLP as DHC s independent auditors for the year ending December 31, 2008.

The DHC board of directors recommends a vote ***FOR*** *the ratification of the selection of KPMG LLP as DHC s independent auditors for the year ending December 31, 2008.*

MANAGEMENT OF DHC

Executive Officers and Directors

The following lists the executive officers and directors of DHC, their birth dates and a description of their business experience, including positions held with DHC. Each of DHC s executive officers is also an employee of Liberty, and each of them provides his services to DHC under the terms of a services agreement between DHC and Liberty described under Executive Compensation Compensation Discussion and Analysis below.

Name	Position
John C. Malone Born March 7, 1941	Chief Executive Officer and Chairman of the Board of DHC since March 2005, and a director of DHC since May 2005. Mr. Malone has served as Chairman of the Board and a director of Liberty since 1990. Mr. Malone served as Chairman of the Board of TCI from November 1996 to March 1999; and Chief Executive Officer of TCI from January 1994 to March 1999. Mr. Malone is Chairman of the Board of Liberty Global and The DirecTV Group, Inc.; and a director of IAC/InterActiveCorp and Expedia, Inc.
Robert R. Bennett Born April 19, 1958	President of DHC since March 2005, and a director of DHC since May 2005. Mr. Bennett served as President of Liberty from April 1997 to February 2006 and as Chief Executive Officer of Liberty from April 1997 to August 2005. Mr. Bennett held various executive positions with Liberty since its inception in 1990. Mr. Bennett is a director of Liberty and Sprint Nextel Corporation.
David J.A. Flowers Born May 17, 1954	Senior Vice President and Treasurer of DHC since March 2005. Mr. Flowers has served as Senior Vice President of Liberty since October 2000 and Treasurer of Liberty since April 1997. Mr. Flowers served as a Vice President of Liberty from June 1995 to October 2000.
Albert E. Rosenthaler Born August 29, 1959	Senior Vice President of DHC since March 2005. Mr. Rosenthaler has served as Senior Vice President of Liberty since April 2002. Prior to joining Liberty, Mr. Rosenthaler was a tax partner in the accounting firm of Arthur Andersen LLP for more than five years.
Christopher W. Shean Born July 16, 1965	Senior Vice President and Controller of DHC since March 2005. Mr. Shean has served as Senior Vice President of Liberty since January 2002 and Controller of Liberty since October 2000. Mr. Shean served as a Vice President of Liberty from October 2000 to January 2002.
Charles Y. Tanabe Born November 27, 1951	Senior Vice President, General Counsel and Secretary of DHC since March 2005. Mr. Tanabe has served as Executive Vice President of Liberty since January 2007 and General Counsel of Liberty since January 1999. Mr. Tanabe served as Senior Vice President of Liberty from January 1999 to December 2006 and Secretary of Liberty from April 2001 to January 2007.
Paul A. Gould Born September 27, 1945	A director of DHC since May 2005. Mr. Gould has served as a Managing Director and Executive Vice President of Allen & Company Incorporated, an investment banking services company, for more than the last five years. Mr. Gould is a director of Liberty, Ampco-Pittsburgh Corporation and

	Liberty Global.
M. LaVoy Robison Born September 6, 1935	A director of DHC since May 2005. Mr. Robison has been executive director and a board member of The Anschutz Foundation (a private foundation) since January 1998. Mr. Robison is a director of Liberty.
J. David Wargo Born October 1, 1953	A director of DHC since May 2005. Mr. Wargo has served as President of Wargo & Company, Inc., a private investment company specializing in the communications industry, since January 1993. Mr. Wargo is a director of Strayer Education, Inc. and Liberty Global.

The executive officers named above will serve in such capacities until the next annual meeting of DHC s board of directors, or until their respective successors have been duly elected and have been qualified, or until their earlier death, resignation, disqualification or removal from office.

There is no family relationship among any of DHC s executive officers or directors, by blood, marriage or adoption.

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

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires DHC executive officers and directors, and persons who own more than ten percent of a registered class of DHC equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten-percent stockholders are required by SEC regulation to furnish us with copies of all Section 16 forms they file.

Based solely on a review of the copies of the Forms 3, 4 and 5 and amendments to those forms furnished to DHC with respect to its most recent fiscal year, or written representations that no Forms 5 were required, DHC believes that, during the year ended December 31, 2007, all Section 16(a) filing requirements applicable to DHC officers, directors and greater than ten-percent beneficial owners were complied with.

Director Independence

It is DHC s policy that a majority of the members of its board of directors be independent of its management. For a director to be deemed independent, DHC s board of directors must affirmatively determine that the director has no direct or indirect material relationship with DHC. To assist its board of directors in determining which of its directors qualify as independent for purposes of the NASDAQ Stock Market listing standards as well as applicable rules and regulations adopted by the SEC, DHC developed categorical standards of director independence, which DHC refers to as its criteria for director independence. Under these criteria, a director will be deemed independent if such director:

is not an employee or member of DHC s management or the management of any of its subsidiaries;

has no material relationship with DHC (either directly or as a partner, stockholder or officer of an organization that has a relationship with DHC); for this purpose material relationships can, for example, include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships;

has no other relationship with DHC or its subsidiaries that would interfere with the exercise of independent judgment as a director; and

does not accept any consulting, advisory or other compensatory fee from DHC, except fees received for services as a director (including fees for serving on a committee of DHC s board of directors).

In addition, under these criteria, a director will <u>not</u> be deemed independent if such director:

is, or, during the three years preceding the determination date (which period of three years is referred to as the **determination period**), was employed by DHC or any of its subsidiaries, or has a family member who is or was during the determination period an executive officer of DHC or any of its subsidiaries;

is, or has an immediate family member who is, an executive officer, partner or controlling stockholder of an organization that made payments to or received payments from DHC for property or services in the current or any of the past three fiscal years, in an amount which exceeded the greater of $200,000 or 5% of the recipient s consolidated gross revenue for that year, other than payments solely from investments in DHC securities or payments under non-discretionary charitable contribution matching programs;

received, or has an immediate family member who received, any payment in excess of $60,000 from DHC or any of its subsidiaries during any period of twelve consecutive months within the determination period, other than (a) director and committee fees, (b) payments arising solely from investments in DHC securities,

(c) compensation to an immediate family member who is a non-executive employee of DHC or any of its subsidiaries, (d) benefits under a tax-qualified retirement plan, (e) non-discretionary compensation, or (f) certain permitted loans;

is, or has an immediate family member who is, a current partner of the external auditor of DHC or any of its subsidiaries or was a partner or employee with the external auditor of DHC or any of its subsidiaries who worked on the audit of DHC or any of its subsidiaries at any time during the determination period; or

is, or during the determination period was, or has a family member who is, or during the determination period was, employed as an executive officer by a company as to which an executive officer of DHC serves, or during the determination period served, as a director and member of the compensation committee of such other company.

DHC s criteria for director independence can be found, in its entirety, on its website at *www.discoveryholdingcompany.com*. In accordance with these criteria, DHC s board of directors has determined that each of Paul A. Gould, M. LaVoy Robison and J. David Wargo qualifies as an independent director of DHC.

Committees of the Board of Directors

Executive Committee

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

Compensation Committee

DHC s board of directors has established a compensation committee, whose members are Paul A. Gould, M. LaVoy Robison and J. David Wargo. See Director Independence above. The compensation committee reviews and makes recommendations to DHC s board of directors regarding all forms of compensation provided to DHC s executive officers and directors. In addition, the compensation committee reviews and makes recommendations on bonus and stock compensation arrangements for all employees of DHC and has responsibility for the administration of the DHC incentive plan and the Discovery Holding Company Transitional Stock Adjustment Plan. The compensation committee also reviews, evaluates and approves, on a semi-annual basis, the allocation of costs and expenses made by Liberty for services rendered to DHC by DHC s named executive officers under the services agreement between DHC and Liberty. For a description of the services agreement and DHC s process for determining the propriety of the cost and expense allocations for DHC s named executive officers thereunder, see Executive Compensation Compensation Discussion and Analysis.

The DHC board of directors has adopted a written charter for the compensation committee, which is available on DHC s website at *www.discoveryholdingcompany.com*.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

The members of DHC s compensation committee are Paul A. Gould, M. LaVoy Robison and J. David Wargo. No member of DHC s compensation committee is a current or former officer or, during 2007 an employee, of DHC or any of its subsidiaries. No interlocking relationship exists between DHC s board and its compensation committee and the board of directors or compensation committee of any other company.

Audit Committee

The DHC board of directors has established an audit committee, whose members are Mr. Gould, Mr. Robison and Mr. Wargo. See Director Independence above. The audit committee reviews and monitors the corporate financial reporting and the internal and external audits of DHC. The committee s functions include, among other things:

appointing or replacing DHC s independent auditors;

reviewing and approving in advance the scope of and fees for DHC s annual audit and reviewing the results of DHC s audits with its independent auditors;

reviewing and approving in advance the scope of and the fees for non-audit services of DHC s independent auditors;

reviewing audited financial statements with DHC s management and independent auditors and making recommendations regarding inclusion of such audited financial statements in certain of DHC s public filings;

overseeing the performance of services by DHC s independent auditors, including holding quarterly meetings to review the quarterly reports of DHC s independent auditors, discussing with DHC s independent auditors issues regarding the ability of DHC s independent auditors to perform such services, obtaining, annually, a letter from DHC s independent auditors addressing certain internal quality-control issues, reviewing with DHC s independent auditors any audit-related problems or difficulties and the response of DHC s management, and addressing other general oversight issues;

reviewing compliance with and the adequacy of DHC s existing major accounting and financial reporting policies;

overseeing the implementation and maintenance of an internal audit function, discussing with DHC s independent auditors and DHC s management the internal audit function s responsibilities, budget and staff, periodically reviewing with DHC s independent auditors the results and findings of the internal audit function and coordinating with DHC s management to ensure that the issues associated with such results and findings are addressed;

reviewing and overseeing compliance with, and establishing procedures for the treatment of alleged violations of, applicable securities laws, SEC and Nasdaq Stock Market rules regarding audit committees and the code of business conduct and ethics adopted by DHC s board of directors; and

preparing a report for DHC s annual proxy statement.

DHC s board of directors has adopted a written charter for the audit committee, which is available on DHC s website at *www.discoveryholdingcompany.com.*

Audit Committee Report. Each member of the audit committee is an independent director as determined by the board of directors of Discovery Holding Company, based on the rules of the Nasdaq Stock Market and the criteria of director independence adopted by the board. Each member of the audit committee also satisfies the SEC s independence requirements for members of audit committees. M. LaVoy Robison is Discovery Holding Company s audit committee financial expert under applicable SEC rules and regulations.

The audit committee reviews Discovery Holding Company s financial reporting process on behalf of the board of directors. KPMG LLP, Discovery Holding Company s independent auditor for 2007, is responsible for expressing opinions on the conformity of Discovery Holding Company s audited consolidated financial statements with U.S. generally accepted accounting principles.

The audit committee has reviewed and discussed with management and KPMG Discovery Holding Company s most recent audited consolidated financial statements. The audit committee has also discussed with KPMG the matters required to be discussed by the Statement on Auditing Standards No. 114, The Auditor s Communication with those charged with Governance, as modified or supplemented, including that firm s judgment about the quality of Discovery Holding Company s accounting principles, as applied in its financial reporting.

KPMG has provided the audit committee with the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as modified or supplemented, and the audit committee has discussed with KPMG that firm s independence from Discovery Holding Company and its subsidiaries.

Based on the reviews, discussions and other considerations referred to above, the audit committee recommended to the board of directors of Discovery Holding Company that the audited financial statements be included in Discovery Holding Company s Annual Report on Form 10-K for the year ended December 31, 2007, filed on February 15, 2008 with the SEC.

Submitted by the Members of the Audit Committee:
Paul A. Gould
M. LaVoy Robison
J. David Wargo

Absence of a Nominating Committee

DHC does not have a standing nominating committee. The board as a whole performs the functions of a nominating committee for purposes of the annual selection of nominees for the election of directors. DHC believes a nominating committee is not necessary because the board as a whole is familiar with the industries in which DHC operates and is knowledgeable regarding the selection of directors. In addition, a majority of DHC s directors are considered independent directors within the meaning of the applicable rules of the Nasdaq Stock Market. The board does not have a charter or other written guidelines for its nominating process. While the board will consider nominees recommended by stockholders, it has not actively solicited such recommendations, nor has it to date established any director nominee criteria or stockholder nominee procedures. The board has historically selected nominees based on their business, financial, accounting or other relevant expertise, their prior experience in the industries in which DHC operates and their involvement with DHC.

Other

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

Board Meetings

During 2007, there were 4 meetings of DHC s full board of directors, 2 meetings of DHC s compensation committee, 4 meetings of DHC s audit committee and no meetings of DHC s executive committee.

Director Attendance at Annual Meetings

DHC s board of directors encourages all members or the board to attend each annual meeting of the company s stockholders. All of DHC s board members attended DHC s 2007 annual meeting of stockholders.

Stockholder Communication with Directors

DHC s stockholders may send communications to DHC s board of directors or to individual directors by mail addressed to the Board of Directors or to an individual director c/o Discovery Holding Company, 12300 Liberty Boulevard, Englewood, Colorado 80112. Communications from stockholders will be forwarded to DHC s directors on a timely basis.

Executive Sessions

The independent directors of DHC held 1 executive session without the participation of management during 2007.

Executive Compensation

Compensation Discussion and Analysis

Services Agreement with Liberty

DHC s Chief Executive Officer is John C. Malone, its President is Robert R. Bennett, its principal financial officer is David J.A. Flowers and its three other most highly compensated executive officers for 2007 are Albert R. Rosenthaler, Christopher W. Shean and Charles Y. Tanabe. These persons are collectively referred to as the **DHC Named Executive Officers**. All of the DHC Named Executive Officers are also executive officers or employees of Liberty.

DHC was formerly a wholly-owned subsidiary of Liberty. In July 2005, Liberty distributed to its stockholders all of DHC s shares in the tax-free DHC spin-off. Prior to the DHC spin-off, the DHC Named Executive Officers were the persons primarily responsible for managing and making policy decisions for DHC s business. In connection with the DHC spin-off, DHC entered into a services agreement with Liberty pursuant to which Liberty agreed to make available to DHC the services of certain personnel, including the DHC Named Executive Officers. Each of the DHC Named Executive Officers is compensated by Liberty as an executive officer or employee of that company, and is not directly compensated by DHC. Rather, pursuant to the services agreement DHC pays to Liberty an allocated portion of the salary and fringe benefits paid by Liberty to the DHC Named Executive Officers.

When DHC entered into the services agreement with Liberty, DHC agreed to a scheduled estimate of the annual allocation of employee costs and expenses for the DHC Named Executive Officers (and others) for calendar year 2005, which was based on the percentage of their respective work hours it was anticipated they would spend on DHC s business. Pursuant to the services agreement, DHC and Liberty reevaluate the appropriateness of the allocation schedule on a semi-annual basis to make appropriate adjustments. The allocation for each of the DHC Named Executive Officers for a particular period is evaluated based on discussions with that DHC Named Executive Officer and after an analysis of the business demands expected to be made on him by DHC for that period. DHC then discusses the proposed allocation with its compensation committee.

The annual allocations for each of the DHC Named Executive Officers in 2007 were as follows: Mr. Malone: 15%; Mr. Bennett: 100%; Mr. Flowers: 5%; Mr. Rosenthaler: 10%, Mr. Shean: 20% and Mr. Tanabe: 20%. These allocations resulted in payments to Liberty for the services of the DHC Named Executive Officers in the amounts set forth in the Salary column of the Summary Compensation Table below.

The services agreement is renewed automatically each year for successive one-year periods, unless earlier terminated (1) by DHC at any time on at least 30 days prior written notice, (2) by Liberty at the end of any renewal term, upon at least 180 days prior notice, (3) by Liberty upon written notice to DHC, following certain changes in control of DHC or DHC being the subject of certain bankruptcy or insolvency-related events or (4) by DHC upon written notice to Liberty, following certain changes in control of Liberty or Liberty being the subject of certain bankruptcy or insolvency-related events. If the Transaction is approved and consummated, the services agreement will be terminated effective upon the closing of the Transaction.

The compensation committee has determined that utilizing the services agreement with Liberty to obtain and pay for the services of the DHC Named Executive Officers enables DHC to obtain the services of highly-qualified individuals who are knowledgeable about DHC s business for less than the amount DHC would be required to pay full time executive officers with similar capabilities and responsibilities.

Equity Incentive Compensation

In connection with the DHC spin-off, DHC s board of directors adopted the DHC incentive plan, and the Discovery Holding Company Transitional Stock Adjustment Plan, which we refer to as the **DHC transitional plan**. The DHC incentive plan, which is expected to be assumed by New Discovery if the Transaction is consummated, provides for the grant of a variety of incentive awards, including stock options, restricted shares, stock appreciation rights and performance awards. The DHC transitional plan provided for the grant of awards with respect to DHC common stock that resulted from adjustments made, in connection with the DHC spin-off, to the then-outstanding Liberty incentive awards in accordance with the anti-dilution provisions of the Liberty incentive plans. The DHC incentive plan and the DHC transitional plan are administered by the compensation committee of DHC s board of directors.

The awards granted under the DHC transitional plan were made pursuant to the terms of a reorganization agreement DHC entered into with Liberty at the time of the DHC spin-off. In accordance with the reorganization agreement, each outstanding Liberty stock option and stock appreciation right held by the DHC Named Executive Officers was divided into an option to purchase a number of shares of the same series of DHC common stock as the series of Liberty common stock for which the outstanding Liberty award was exercisable equal to 0.10 times the number of shares for which the Liberty award was exercisable (a **DHC spin-off option)** and an adjusted option or stock appreciation right, as applicable, with respect to shares of Liberty common stock equal to the same series and number of shares of Liberty common stock for which the Liberty award was exercisable (an **adjusted Liberty award**). The exercise price or base price of each Liberty award was allocated between the DHC spin-off option and the adjusted Liberty award. DHC believes that the DHC spin-off options help to align the interests of the DHC Named Executive Officers with those of DHC s stockholders and help motivate them to increase the value of DHC for its stockholders.

On May 16, 2007, DHC s compensation committee determined to award Mr. Bennett options to purchase 10,000 shares of DHC Series A common stock under the DHC incentive plan, in recognition of Mr. Bennett s service to DHC. The options received by Mr. Bennett had an exercise price equal to $22.90, which was the closing price of DHC Series A common stock on the grant date, and a grant date fair value of $77,382. For more information, please see the Grants of Plan-Based Awards table below.

DHC s compensation committee does not expect to grant future awards under the DHC incentive plan prior to the completion of the Transaction. If the Transaction is not completed, the DHC compensation committee expects to grant future awards under the DHC incentive plan in those circumstances in which either (i) the award will help better align the interests of a recipient with those of DHC s stockholders and help motivate the recipient to increase the value of DHC for its stockholders or (ii) the award will assist DHC in attracting key employees. Although the DHC compensation committee has not adopted a formal policy in this regard, the DHC compensation committee does not intend to award equity or equity-linked awards under the DHC incentive plan at a time when DHC s board of directors is in possession of undisclosed, material information that can reasonably be expected to cause increased trading in DHC stock. No further awards may be granted under the transitional plan.

Employment Contracts, Termination of Employment and Change in Control Arrangements

DHC has no employment contracts, termination of employment agreements or change of control agreements with any of the DHC Named Executive Officers. However, under the terms of the services agreement if Liberty terminates any of the DHC Named Executive Officers who devoted 50% or more of his time to providing services to DHC over the one-year period preceding such termination (the **look-back period**), a portion of any severance payments payable to that officer by Liberty will be allocated to DHC. The amount allocated to DHC will be based upon the percentage determined by dividing the total number of months in which such executive devoted 50% or more of his time providing services to DHC under the services agreement by the total number of months that he was employed by Liberty or its predecessors, to the extent taken into account for purposes of determining the severance payment payable to that executive (or using such other basis upon which the amount of the severance payment is determined to be payable to that executive), multiplied by the percentage of the executive s time devoted to providing services to DHC during the look-back period.

In addition, under the DHC incentive plan following a change of control of DHC all awards granted thereunder will fully vest, unless the DHC compensation committee determines otherwise and effective provision is made to substitute new, equivalent awards of any successor company.

Summary Compensation Table

The following table sets forth information regarding the compensation paid to each of the DHC Named Executive Officers during the years ended December 31, 2007 and 2006.

Name and Principal Position	**Year**	**Salary ($)(1)**	**Option Awards ($)(2)**	**All Other Compensation ($)(3)**	**Total ($)**
John C. Malone	2007	390	278,896	150,000	429,286
Chief Executive Officer and Chairman of the Board (principal executive officer)	2006	390	355,303	75,000	430,693
Robert R. Bennett	2007	500,000	51,588(4)		551,588
President	2006	468,750			468,750
David J.A. Flowers	2007	31,250	61,133		92,383
Senior Vice President and Treasurer (principal financial officer)	2006	28,750	88,850		117,600
Albert E. Rosenthaler	2007	62,500	70,374		132,874
Senior Vice President	2006	43,125	119,208		162,333
Christopher W. Shean	2007	125,000	62,364		187,364
Senior Vice President and Controller (principal accounting officer)	2006	115,000	82,647		197,647
Charles Y. Tanabe	2007	170,000	62,073		232,073
Senior Vice President, General Counsel and Secretary	2006	143,000	93,770		236,770

(1) During 2006 and 2007, each DHC Named Executive Officer was also an executive officer or employee of Liberty. Pursuant to a services agreement between DHC and Liberty, Liberty allocates a portion of the compensation it pays to the DHC Named Executive Officers to DHC as described above in Compensation Discussion and Analysis. In addition to the salary amount for each DHC Named Executive Officer included in the table, Liberty allocates to DHC an amount for employee benefits equal to 15% of the allocated amount of the salary that is allocated to DHC for that DHC Named Executive Officer. The amounts in the table represent amounts allocated to DHC by Liberty for the years ended December 31, 2007 and 2006.

(2) The dollar amounts recognized for financial statement reporting purposes have been calculated in accordance with FAS 123R. For a description of the assumptions applied in these calculations, see Note 4 to DHC s consolidated financial statements for the year ended December 31, 2007 (which are included in DHC s Annual Report on Form 10-K, as amended, as filed with the SEC).

(3) Pursuant to Mr. Malone s employment agreement with Liberty, he is entitled to receive an annual allowance for personal expenses (which was $500,000 during 2006 and increased to $1 million during 2007), such as payment for or reimbursement of professional fees and other expenses incurred for estate, tax planning and other services and personal use of corporate aircraft and flight crew. Liberty has allocated 15% of this allowance during each of 2007 and 2006 to DHC pursuant to the services agreement.

(4) On May 16, 2007, Mr. Bennett received a grant of options to acquire 10,000 shares of DHC Series A stock for his service to DHC. The dollar amounts recognized for financial statement purposes, as calculated in accordance with FAS 123R, under these options is included in the table.

Grants of Plan-Based Awards

The following table contains information regarding plan-based incentive awards granted during the year ended December 31, 2007 to the DHC Named Executive Officers.

Name	Grant date	All other option awards: Number of securities underlying options	Exercise or base price of option awards	Grant date fair value of stock and option awards
Robert R. Bennett				
Series A	May 16, 2007	10,000(1)	$ 22.90	$ 77,382

(1) Vests on May 16, 2008.

Outstanding Equity Awards at Fiscal Year-End

The following table contains information regarding unexercised options to acquire shares of DHC common stock, which were outstanding as of December 31, 2007 and held by the DHC Named Executive Officers.

	Option awards			
Name	**Number of securities underlying unexercised options-Exercisable**	**Number of securities underlying unexercised options-Unexercisable**	**Option exercise price ($)**	**Option expiration date**
John C. Malone				
Series A	13,333	6,667(1)	14.67	6/14/08
Series B	1,148,540		19.06	2/28/11
	120,000	60,000(1)	15.91	6/14/08
Robert R. Bennett				
Series A	100,000		13.00	7/31/13
	100,000		11.84	8/6/14
		10,000(2)	22.90	5/16/17
Series B	1,667,985		19.06	2/28/11
David J.A. Flowers				
Series A	147,686		17.54	2/28/11
	16,000	4,000(3)	13.00	7/31/13
	15,000	10,000(4)	11.84	8/6/14
Albert E. Rosenthaler				
Series A		5,000(3)	13.00	7/31/13
		10,000(4)	11.84	8/6/14
Christopher W. Shean				
Series A		5,000(3)	13.00	7/31/13
		10,000(4)	11.84	8/6/14
Charles Y. Tanabe				
Series A	101,915		17.54	2/28/11
		5,000(3)	13.00	7/31/13
		9,000(4)	11.84	8/6/14

(1) Vests as to 100% on June 14, 2008.

(2) Vests as to 100% on May 16, 2008.

(3) Vests as to 100% on July 31, 2008.

(4) Vests as to 50% on each of August 6, 2008 and 2009.

Option Exercises and Stock Vested Table

The following table sets forth information regarding the exercise of stock options held by the DHC Named Executive Officers, in each case, during the year ended December 31, 2007.

	Option awards	
Name	**Number of shares acquired on exercise**	**Value realized on exercise ($)**
Albert E. Rosenthaler		
Series A	86,280	1,207,334
Christopher W. Shean		
Series A	68,845	839,732
Charles Y. Tanabe		
Series A	128,500	1,329,189

Director Compensation Table

The following table sets forth information regarding the compensation paid to each director of DHC, other than Messrs. Malone and Bennett, during the year ended December 31, 2007.

Name(1)	**Fees Earned or Paid in Cash ($)(2)**	**Option Awards ($)(3)(4)**	**Total ($)**
Paul A. Gould	63,000	66,494(5)	129,494
M. LaVoy Robison	75,000	66,494(6)	141,494
J. David Wargo	63,000	66,494(7)	129,494

(1) Excludes John C. Malone and Robert R. Bennett, each of whom is a director of DHC and a DHC Named Executive Officer.

(2) Each of the DHC directors who is not an officer or employee of DHC is paid a retainer of $50,000 per year, payable quarterly in arrears, plus a fee of $1,000 for each board meeting he attends. In addition, the chairman and each other member of the audit committee of DHC s board of directors is paid a fee of $5,000 and $2,000, respectively, for each audit committee meeting he attends. Each member of the executive committee and the compensation committee who is not an employee of DHC receives a fee of $1,000 for each committee meeting he attends. Fees to DHC directors are payable in cash. In addition, DHC reimburses members of its board for travel expenses incurred to attend any meetings of its board or any committee thereof.

(3) The dollar amounts recognized for financial statement purposes have been calculated in accordance with FAS 123R. For a description of the assumptions applied in these calculations, see Note 13 to DHC s consolidated financial statements for the year ended December 31, 2007 (which are included in DHC s Annual Report on Form 10-K, as amended, as filed with the SEC).

(4) Pursuant to the Discovery Holding Company 2005 Nonemployee Director Incentive Plan, on May 16, 2007, DHC s board of directors granted each of the nonemployee directors options (the **director options**) to purchase 10,000 shares of DHC Series A common stock at an exercise price equal to $22.90, which was the closing price of DHC Series A common stock on the grant date. The director options received by each director had a grant date fair value of $77,382. The director options will become exercisable on the date of the Annual Meeting, or on such earlier date that the grantee ceases to be a director because of death or disability, and will terminate without becoming exercisable if the grantee resigns or is removed from the board before the date of the Annual Meeting. The director options will, upon becoming exercisable, be exercisable until May 16, 2017, or, if earlier, until the first business day following the first anniversary of the date the grantee ceases to be a director (or, if the grantee dies within that period, until the first business day following the expiration of the one-year period beginning on the date of the grantee s death).

(5) In addition to the director options, as of February 29, 2008, Mr. Gould held an aggregate 14,175 outstanding option awards, all of which were granted prior to 2007.

(6) In addition to the director options, as of February 29, 2008, Mr. Robison held an aggregate 13,300 outstanding option awards, all of which were granted prior to 2007.

(7) In addition to the director options, as of February 29, 2008, Mr. Wargo held an aggregate 11,048 outstanding option awards, all of which were granted prior to 2007.

Equity Compensation Plans

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information as of December 31, 2007, with respect to shares of DHC common stock authorized for issuance under DHC equity compensation plans.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders:			
Discovery Holding Company 2005 Incentive Plan:			
Series A common stock	10,000	$ 22.90	19,990,000(1)
Series B common stock		$	
Discovery Holding Company 2005 Nonemployee Director Incentive Plan			
Series A common stock	60,000	$ 18.69	4,940,000(1)
Series B common stock		$	
Discovery Holding Company Transitional Stock Adjustment Plan(2)			
Series A common stock	1,082,292	$ 15.42	
Series B common stock	2,996,525	$ 18.87	
Equity compensation plans not approved by security holders None			
Total	4,148,817	$ 17.91	24,930,000

(1) Each plan permits grants of, or with respect to, shares of DHC Series A common stock or Series B common stock subject to a single aggregate limit. See The Incentive Plan Proposal for information regarding the proposed amendment and restatement of the DHC incentive plan in connection with the Transaction.

(2) The DHC transitional plan was adopted in connection with the DHC spin-off to provide for the supplemental award of options to purchase shares of DHC common stock and restricted shares of DHC Series A common stock, in each case, pursuant to adjustments made to Liberty stock incentive awards in accordance with the anti-dilution provisions of Liberty s stock incentive plans.

Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners

The following table sets forth information, to the extent known by DHC or ascertainable from public filings, concerning shares of DHC common stock beneficially owned by each person or entity (other than certain of the DHC directors and executive officers, whose ownership information follows) known by DHC to own more than five percent of the outstanding shares of its common stock.

The percentage ownership information is based upon 268,059,637 shares of DHC Series A common stock and 13,198,236 shares of DHC Series B common stock outstanding as of June 30, 2008.

Name and Address of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class	Voting Power
Harris Associates L.P. Two North LaSalle Street Suite 500 Chicago, IL 60602	Series A	26,937,050(1)	10.0%	6.7%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	Series A	15,491,272(2)	5.8%	3.9%

(1) The number of shares of common stock is based upon Amendment No. 3 to the Schedule 13G dated February 12, 2008, filed by Harris Associates L.P., an investment adviser, and its general partner, Harris Associates Inc., with respect to DHC Series A common stock. Harris Associates is deemed to be the beneficial owner of 26,937,050 shares of DHC Series A common stock, as a result of acting as investment adviser. The Schedule 13G reflects that Harris Associates has shared voting power over 24,731,330 shares of DHC Series A common stock.

(2) The number of shares of common stock is based upon Amendment No. 1 to the Schedule 13G dated February 14, 2008, filed by T. Rowe Price Associates, Inc., an investment adviser, with respect to DHC Series A common stock. T. Rowe Price is deemed to be the beneficial owner of 15,491,272 shares of DHC Series A common stock. The Schedule 13G reflects that T. Rowe Price has sole voting power over 2,700,515 shares of DHC Series A common stock.

Security Ownership of Management

The following table sets forth information with respect to the ownership by each of DHC s directors and each of the DHC Named Executive Officers, and by all of DHC s directors and executive officers as a group, of shares of DHC Series A and DHC Series B common stock.

The security ownership information is given as of June 30, 2008, and, in the case of percentage ownership information, is based upon 268,059,637 shares of DHC Series A common stock and 13,198,236 shares of DHC

Series B common stock outstanding on such date.

Shares of common stock issuable upon exercise or conversion of options, warrants and convertible securities that were exercisable or convertible on or within 60 days after June 30, 2008, are deemed to be outstanding and to be beneficially owned by the person holding the options, warrants or convertible securities for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. For purposes of the following presentation, beneficial ownership of shares of DHC Series B common stock, though convertible on a one-for-one basis into shares of DHC Series A common stock, is reported as beneficial ownership of DHC Series B common stock only, and not as beneficial ownership of DHC Series A common stock, but the voting power of the Series A common stock and Series B common stock have been aggregated. So far as is known to DHC, the persons indicated below have sole voting power with respect to the shares indicated as owned by them, except as otherwise stated in the notes to the table.

Name of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership (In thousands)	Percent of Class	Voting Power
John C. Malone	Series A	2,256(1)(2)	*	31.0%
	Series B	12,187(1)	92.3%	
Robert R. Bennett	Series A	327(3)(4)(5)	*	4.1%
	Series B	1,668(3)(5)	11.2%	
Paul A. Gould	Series A	240(3)	*	*
	Series B	175	1.3%	
M. LaVoy Robison	Series A	14(3)	*	*
	Series B			
J. David Wargo	Series A	20(3)(6)	*	*
	Series B		*	
David J.A. Flowers	Series A	215(3)(4)	*	*
	Series B			
Albert E. Rosenthaler	Series A	1(3)(4)	*	*
	Series B			
Christopher W. Shean	Series A	1(3)(4)	*	*
	Series B			
Charles Y. Tanabe	Series A	112(3)(4)(7)	*	*
	Series B			
All directors and executive	Series A	3,206(2)(3)(4)(5)(6)(8)	1.2%	34.4%
officers as a Group (9 persons)	Series B	14,029(3)(5)(8)	94.4%	

* Less than one percent

(1) Includes 536,675 shares of DHC Series A common stock and 340,943 shares of DHC Series B common stock held by Mr. Malone s wife, Mrs. Leslie Malone, as to which shares Mr. Malone has disclaimed beneficial ownership.

(2) Includes 330 and 1,106,348 shares of DHC Series A common stock held by two trusts with respect to which Mr. Malone is the sole trustee and, with his wife, retains a unitrust interest in the trust.

(3) Includes beneficial ownership of shares that may be acquired upon exercise of stock options exercisable within 60 days after June 30, 2008. Mr. Bennett has the right to convert the options to purchase shares of DHC Series B common stock into options to purchase shares of DHC Series A common stock.

	Series A	Series B
Robert R. Bennett	200,000	1,667,985

Paul A. Gould	14,175
M. LaVoy Robison	13,300
J. David Wargo	11,048
David J.A. Flowers	187,686
Albert E. Rosenthaler	10,000
Christopher W. Shean	10,000
Charles Y. Tanabe	111,415

(4) Includes shares of DHC Series A common stock held by the Liberty 401(k) Savings Plan as follows:

Robert R. Bennett	2,266
David J.A. Flowers	1,023
Albert E. Rosenthaler	446
Christopher W. Shean	474
Charles Y. Tanabe	529

(5) Includes 109,826 shares of DHC Series A common stock and 40 shares of DHC Series B common stock owned by Hilltop Investments, Inc., which is jointly owned by Mr. Bennett and his wife, Mrs. Deborah Bennett.

(6) Includes 3,137 shares of DHC Series A common stock held in various accounts managed by Mr. Wargo, as to which shares Mr. Wargo has disclaimed beneficial ownership.

(7) Includes 306 shares of DHC Series A common stock held by Mr. Tanabe s wife, Arlene Bobrow, as to which shares Mr. Tanabe has disclaimed beneficial ownership.

(8) Includes 536,981 shares of DHC Series A common stock and 340,943 shares of DHC Series B common stock held by relatives of certain directors and executive officers, as to which shares beneficial ownership by such directors and executive officers has been disclaimed.

Change of Control

Other than as contemplated by the Transaction, DHC knows of no arrangements, including any pledge by any person of its securities, the operation of which may at a subsequent date result in a change in control of DHC. For more information about the Transaction, please see The Transaction.

ADDITIONAL INFORMATION

Experts

DHC

The consolidated financial statements and schedules of DHC and subsidiaries, except Discovery Communications Holdings LLC and Discovery Communications, Inc., as of December 31, 2007 and 2006, and for each of the years in the three-year period ended December 31, 2007, have been incorporated by reference herein, in reliance upon the reports of KPMG LLP, independent registered public accounting firm, and upon the authority of said firms as experts in accounting and auditing. The report of KPMG LLP refers to a change in the accounting for share-based payments in 2006.

Discovery Communications Holding

The consolidated financial statements of Discovery Communications Holding and subsidiaries (successor company) as of December 31, 2007 and for the period from May 15, 2007 through December 31, 2007, included in this proxy statement/prospectus, have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Discovery and subsidiaries (predecessor company) as of December 31, 2006 and for the period from January 1, 2007 through May 14, 2007 and for each of the two years in the period ended December 31, 2006, included in this proxy statement/prospectus, have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

AMC

The combined financial statements of Ascent Media Group (a combination of certain assets and businesses owned by Discovery Holding Company, as defined in note 1), which we refer to in this proxy statement/prospectus as AMC, as of December 31, 2007 and 2006, and for each of the years in the three-year period ended December 31, 2007, have been included in this registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in auditing and accounting. The report of KPMG LLP refers to a change in the accounting for share-based payments in 2006.

Legal Matters

Legal matters relating to the validity of the common stock to be issued in the Transaction will be passed upon by Baker Botts L.L.P.

Stockholder Proposals

New Discovery

In order to be eligible for inclusion in New Discovery s proxy materials for its 2009 annual meeting, any stockholder proposal must be submitted in writing to New Discovery s Corporate Secretary and received at New Discovery s executive offices, by the close of business on April 7, 2009 or such other date as New Discovery may determine and announce in connection with the actual scheduling of its 2009 annual meeting. To be considered for presentation at New Discovery s 2009 annual meeting, although not included in its proxy statement, any stockholder proposal must be received at the executive offices of New Discovery on or before the close of business on July 20, 2009 or such other date as New Discovery may determine and announce in connection with the actual scheduling of its 2009 annual meeting.

All stockholder proposals for inclusion in New Discovery s proxy materials will be subject to the requirements of the proxy rules adopted under the Exchange Act and, as with any stockholder proposal (regardless of whether it is included in New Discovery s proxy materials), New Discovery s restated charter, New Discovery s bylaws and Delaware law.

DHC

If the Transaction is not completed for any reason, DHC will hold a 2009 annual meeting. In order to be eligible for inclusion in DHC s proxy material for its 2009 annual meeting, any stockholder proposal must be submitted in writing to DHC s Corporate Secretary and received at DHC s executive offices at 12300 Liberty Boulevard, Englewood, Colorado 80112, by the close of business on April 7, 2009 or such other date as DHC may determine and announce in connection with the actual scheduling of its 2009 annual meeting. To be considered for presentation at the 2009 annual meeting, although not included in DHC s proxy statement, any stockholder proposal must be received at DHC s executive offices at the foregoing address on or before the close of business on June 20, 2009, or such other date as DHC may determine and announce in connection with the actual scheduling of its 2009 annual meeting.

All stockholder proposals for inclusion in DHC s proxy materials will be subject to the requirements of the proxy rules adopted under the Exchange Act and, as with any stockholder proposal (regardless of whether it is included in DHC s proxy materials), DHC s restated charter, DHC s bylaws and Delaware law.

Where You Can Find More Information

New Discovery has filed with the Securities and Exchange Commission a registration statement on Form S-4 under the Securities Act with respect to the shares of New Discovery common stock being offered by this proxy statement/prospectus. This proxy statement/prospectus, which forms a part of the registration statement, does not contain all the information included in the registration statement and the exhibits thereto. You should refer to the registration statement, including its exhibits and schedules, for further information about New Discovery and the securities being offered hereby.

DHC is subject to the information and reporting requirements of the Exchange Act and, in accordance with the Exchange Act, DHC files periodic reports and other information with the Securities and Exchange Commission. New Discovery is the successor reporting person to DHC if the Transaction is completed.

You may read and copy any document that DHC or New Discovery file at the Public Reference Room of the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at (800) SEC-0330. You may also inspect such filings on the Internet website maintained by the SEC at *www.sec.gov*. Additional information can also be found on DHC s website at *www.discoveryholdingcompany.com*. Information contained on any website referenced in this proxy statement/prospectus is not incorporated by reference in this proxy statement/prospectus. In addition, copies of documents filed by DHC or New Discovery with the Securities and Exchange Commission are also available by contacting DHC, as applicable, by writing or telephoning the office of Investor Relations:

Discovery Holding Company
12300 Liberty Boulevard
Englewood, Colorado 80112
Telephone: (877) 772-1518

The Securities and Exchange Commission allows DHC to incorporate by reference information into this document, which means that we can disclose important information about DHC to you by referring you to other documents. The information incorporated by reference is an important part of this proxy statement/prospectus, and is deemed to be part of this document except for any information superseded by this document or any other document incorporated by reference into this document. Any statement, including financial statements, contained in DHC s Annual Report on Form 10-K and 10-K/A for the year ended December 31, 2007 shall be deemed to be modified or superseded to the extent that a statement, including financial statements, contained in this proxy statement/prospectus or in any other later incorporated document modifies or supersedes that statement. We incorporate by reference the documents listed below and any future filings made by DHC with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, prior to the date of the Annual Meeting:

DHC s Annual Report on Form 10-K for the year ended December 31, 2007, filed on February 15, 2008;

DHC s Annual Report on Form 10-K/A for the year ended December 31, 2007, filed on April 29, 2008;

DHC s Annual Report on Form 10-K/A for the year ended December 31, 2007, filed on June 2, 2008; and

DHC s Quarterly Report on Form 10-Q for the period ended March 31, 2008, filed on May 8, 2008.

DHC s Current Report on Form 8-K, filed on June 5, 2008.

Neither DHC nor New Discovery has authorized anyone to give any information or make any representation about the Transaction, New Discovery, DHC or Discovery, that is different from, or in addition to, the information contained in this proxy statement/prospectus or in any of the materials that we have incorporated into this document by reference. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this proxy statement/prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this proxy statement/prospectus does not extend to you. The information contained in this proxy statement/prospectus speaks only as of the date of this proxy statement/prospectus unless the information specifically indicates that another date applies.

Appendix A

Information Concerning Discovery Communications Holding, LLC Including Its Wholly Owned Subsidiary Discovery Communications, LLC

Part 1 Business Description

Discovery is a leading global media and entertainment company that provides original and purchased programming across multiple distribution platforms in the United States and more than 170 other countries, with over 100 television networks offering customized programming in 35 languages. As one of the world s largest providers of non-fiction television programming, Discovery s strategy is to optimize the distribution, ratings and profit potential of each of its branded channels. Discovery also develops and sells consumer and educational products and services in the United States and internationally, and owns and operates a diversified portfolio of website properties and other digital services. Discovery operates through three divisions: (1) Discovery networks U.S., (2) Discovery networks international, and (3) Discovery commerce and education.

Discovery s media content spans non-fiction genres including science, exploration, survival, natural history, sustainability of the environment, technology, anthropology, paleontology, history, space, archaeology, health and wellness, engineering, adventure, lifestyles and current events. This type of programming tends to be culturally neutral and maintains its relevance for an extended period of time, referred to as long-tail. As a result, Discovery s content translates well across international borders and is made even more accessible through extensive use of dubbing and subtitles in local languages as well as the creation of local programming tailored to individual market preferences.

Discovery s content is designed to target key audience demographics, and the popularity of its programming offers a compelling reason for advertisers to purchase time on its channels. Discovery s audience ratings are a key driver in generating advertising revenue and create demand on the part of cable television operators, direct-to-home or DTH satellite operators, telephone and communications companies and other content distributors to deliver its programming to their customers.

Discovery has an extensive library of over 100,000 hours of programming and footage that provides a high-quality source of content for creating new services and launching into new markets and onto new platforms. Discovery generally owns most or all rights to the majority of this programming and footage which enables Discovery to exploit its library to launch new brands and services into new markets quickly without significant incremental spending. Programming can be re-edited and updated to provide topical versions of subject matter in a cost-effective manner and utilized around the world.

In addition to growing distribution and advertising revenue for its branded channels, Discovery is focused on growing revenue across new distribution platforms, including brand-aligned web properties, mobile devices, video-on-demand and broadband channels, which serve as additional outlets for advertising and affiliate sales, and provide promotional platforms for its programming. Discovery currently operates Internet sites providing news, information and entertainment content that are aligned with its television programming. In December 2007, Discovery completed the acquisition of HowStuffWorks.com, an award-winning online source of high-quality, unbiased and easy-to-understand explanations of how the world actually works. This acquisition provides an additional platform for Discovery s extensive library of video content and positions its brand as a hub for satisfying curiosity on a variety of topics on both television and online.

Discovery is also exploiting its programming assets to take advantage of the growing demand for high definition (HD) programming in the U.S. and throughout the world. In 2007, Discovery launched HD simulcasts of four of its networks (Discovery Channel, TLC, Animal Planet and Science Channel) in addition to its existing HD Theater service, which was launched in 2002. Discovery also operates HD channels in 16 countries outside of the U.S., making it the number-one programming provider of HD channels outside of the U.S. based on the number of HD channels that it operates. Discovery believes it is well positioned to take advantage of the accelerating growth in sales of HD televisions and Blu-Ray DVD players, and the expanding distribution of HD channels around the world. Where Discovery operates HD simulcasts of its networks, Discovery also benefits from the ability to aggregate audiences for advertising sales purposes. In June 2008, Discovery launched Planet Green HD, its sixth HD channel in the U.S.

Strategy

Discovery s strategy is to deliver sustainable long-term growth at or above our peers through the development of high quality media brands that build consumer viewership, optimize distribution growth and capture advertising sales. In addition, Discovery is focused on maximizing the overall efficiency and effectiveness of its global operations through collaboration and innovation across operating units and regions around the world and across all television and digital platforms.

In line with this strategy, Discovery s specific priorities include:

Maintaining Discovery s focus on creative excellence in non-fiction programming and expanding the portfolio s brand entitlement by developing compelling content that increases audience growth, builds advertising relationships, has global utility and supports continued distribution revenue on all platforms.

Exploiting Discovery s distribution strength in the U.S. with three channels reaching more than 90 million U.S. subscribers and six channels reaching approximately 50 million to 70 million U.S. subscribers to build additional branded channels and businesses that can sustain long-term growth and occupy a desired programming niche with strong consumer appeal. For example, Discovery recently announced the repositioning of several emerging television networks to build stronger consumer brands through specific category ownership that supports more passionate audience loyalty and increased advertiser and affiliate interest and integration.

Maintaining a leadership position in non-fiction entertainment in international markets, and continuing to grow and improve the performance of the international operations. This will be achieved through expanding local advertising sales capabilities, creating licensing and digital growth opportunities, and improving operating efficiencies by strengthening development and promotional collaboration between U.S. and international network groups.

Developing and growing compelling and profitable content experiences on new platforms that are aligned with its core branded channels. Specifically, extending ownership of non-fiction entertainment and satisfying curiosity to all digital media devices around the world to enhance the consumer entertainment experience, further monetize Discovery s extensive programming library, and create additional vehicles on which to offer new products and services that deliver new revenue streams.

Recent Developments

In support of its strategy and priorities, in January 2007, Discovery re-evaluated its operations to identify and implement strategic initiatives designed to improve operational and financial performance and allocate capital in a more disciplined and efficient manner. The following actions are representative of these initiatives:

Business Restructuring: Improved margins through revenue growth and cost efficiencies across Discovery s divisions. Management implemented a growth strategy to address underperforming assets, closed all of its 103 retail stores and shifted the focus of its commerce business to e-commerce and licensing in order to broaden the reach of Discovery-branded products. Discovery also streamlined its education business to focus on direct-to-school products including *Discovery Education streaming* and significantly reduced the investment in direct-to-consumer services. These actions, coupled with an overall focus on improved efficiency, resulted in an approximate 25% reduction in global personnel in 2007. As a result of these restructurings, Discovery improved the operating performance of the properties that it continues to use and operate.

Global Content Sharing: Strengthened development and promotional collaboration between U.S. and international networks to improve operating margins, promote content sharing and build global brand strength.

Television Network Rebrands: In January 2008, Discovery Times Channel was rebranded as Investigation Discovery as a means to exploit Discovery s extensive library of fact-based investigation and current affairs programming. In June 2008, Discovery rebranded Discovery Home as Planet Green, the only 24-hour eco-lifestyle television network committed to documenting, preserving and celebrating the planet. In January

2008, Discovery announced a 50-50 joint venture with Oprah Winfrey and Harpo, Inc. to rebrand Discovery Health as OWN: The Oprah Winfrey Network, a new multi-platform venture designed to entertain, inform and inspire people to live their best lives through the OWN Channel and the Oprah.com website. It is expected that Discovery Health Channel will be rebranded as OWN in the second half of 2009.

Digital Media Acquisitions and Website Relaunch: Expanded internal web operations while acquiring HowStuffWorks.com and TreeHugger.com, to create a portfolio of brand-aligned digital properties that expand Discovery s cross-platform sales and promotional opportunities and realize economies through programs that can be produced once and used often in both long- and short-form across multiple platforms. In December 2007, Discovery completed the acquisition of HowStuffWorks.com, an award-winning online source of high-quality, unbiased and easy-to-understand explanations of how the world actually works, and in August 2007, Discovery acquired Treehugger.com, an eco-lifestyle website. Discovery relaunched its flagship website, Discovery.com, and is in the process of expanding and deepening the content of all of its channel websites (e.g., TLC.com, AnimalPlanet.com) to move beyond being television promotion vehicles and to focus on audience growth, engagement and improved monetization. Together with these recent acquisitions, Discovery now has approximately 33 million unique visitors per month to all of its wholly owned websites (source: Omniture, Inc.).

Dispositions - In May 2007, Discovery and Cox completed an exchange of Cox s 25% interest in Discovery for all of the capital stock of a subsidiary of Discovery that held Discovery s entire interest in Travel Channel, travelchannel.com and approximately $1.3 billion in cash.

Business Operations

Discovery operates through the three divisions discussed below. A discussion of the financial performance of each of these divisions can be found in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Discovery Networks U.S.

Reaching approximately 680 million cumulative subscribers (as defined below) in the United States as of March 31, 2008 and having one of the industry s most widely distributed portfolio of brands, Discovery networks U.S. delivers 11 cable and satellite television channels in the U.S. The portfolio includes three channels that each reach over 90 million U.S. subscribers (as defined below) and four channels that each reach over 50 million U.S. subscribers. Discovery networks U.S. also provides distribution and advertising sales services for Travel Channel and distribution services for BBC America and BBC World Service.

Domestic subscriber numbers set forth in this document are according to The Nielsen Company. As used herein, a U.S. subscriber is a single household that receives the applicable Discovery channel from its cable, satellite or other television provider, including those who receive Discovery networks from pay-television providers without charge pursuant to various pricing plans that include free periods and/or free carriage. The term cumulative subscribers in the U.S. refers to the collective sum of the total number of U.S. subscribers to each of Discovery s U.S. channels. By way of example, two U.S. households that each receive five Discovery networks from their cable provider represent 10 cumulative subscribers in the U.S. The term cumulative subscribers in the U.S. also includes seven million cumulative subscribers in Canada who receive direct feeds of TLC and Military Channel from Discovery networks U.S.

Discovery Channel

Launched in June 1985, Discovery Channel reached approximately 97 million U.S. subscribers as of March 31, 2008.

Discovery Channel brings viewers engaging stories and extraordinary experiences that share knowledge, satisfy curiosity and inspire the very joy of discovery.

Discovery s flagship, Discovery Channel, was the second most widely distributed cable channel in the United States, according to The Nielsen Company as of March 31, 2008.

Some of the networks most popular returning and new series include *Deadliest Catch, Mythbusters, Dirty Jobs, Man Vs Wild, Smash Lab, Some Assembly Required,* and *Bone Detectives*. Discovery Channel is also home to high-profile specials and mini-series, including the critically acclaimed *Planet Earth* and *When We Left Earth: The NASA Missions.*

Target viewers are adults 25-54, particularly men.

Discovery Channel is simulcast in HD.

TLC

Acquired by Discovery in 1991, TLC reached approximately 96 million U.S. subscribers as of March 31, 2008.

TLC features educational programming that explores life s key transitions and turning points, and presents high-quality, relatable and authentic personal stories.

Series highlights on TLC include *L.A. Ink, Little People, Big World, Jon And Kate Plus 8, What Not To Wear, Flip That House*, and the recently relaunched *Trading Spaces*.

Target viewers are adults 18-49, particularly women.

TLC is simulcast in HD.

Animal Planet

Launched in October 1996, Animal Planet reached approximately 94 million U.S. subscribers as of March 31, 2008.

With a new logo and on-air look, Animal Planet leads viewers to relate to animals as characters that inspire and engage, not merely creatures to observe.

Animal Planet s engaging, insightful and high-quality entertainment taps into the instincts that drive us all with compelling stories.

Programming highlights on Animal Planet include *Meerkat Manor, Orangutan Island, Animal Precinct* and Jeff Corwin specials.

Target viewers are adults 25-54, particularly women.

Animal Planet is simulcast in HD.

A-1-4

Discovery Health

Launched in August 1999, Discovery Health reached approximately 68 million U.S. subscribers as of March 31, 2008.

Discovery Health takes viewers inside the fascinating and informative world of health and medicine to experience first-hand compelling, real-life stories of medical breakthroughs and human triumphs.

In January 2008, Discovery announced a joint venture with Oprah Winfrey and Harpo, Inc. to create OWN: The Oprah Winfrey Network, a new multi-platform venture designed to entertain, inform and inspire people to live their best lives. Oprah Winfrey will serve as Chairman of OWN, LLC and the venture will be 50-50 owned by Discovery and Harpo. Discovery will handle distribution, origination and other operational requirements and both organizations will contribute advertising sales services to the venture.

Discovery Health is expected to be rebranded as OWN in the second half of 2009.

OWN will build on Discovery Health s target audience of women 25-54.

OWN will be simulcast in HD.

Discovery Kids

Launched in October 1996, Discovery Kids reached approximately 58 million U.S. subscribers as of March 31, 2008.

Discovery Kids lets kids of all ages (from preschoolers to tweens and teens) explore the world from their point of view. This network provides entertaining, engaging and high-quality programming that kids enjoy and parents trust. Kids can learn about science, adventure, exploration and natural history through documentaries, reality shows, scripted dramas and animated stories.

Series highlights on Discovery Kids include the animated Real Toon series *Tutenstein* and *Saving A Species: The Great Penguin Rescue.*

Target viewers are children and families.

Science Channel

Launched in October 1996, Science Channel reached approximately 52 million U.S. subscribers as of March 31, 2008.

Science Channel is devoted to science by celebrating the why in everything and providing context and understanding of the full spectrum of the wonders of science.

With a refreshed brand, Science Channel includes series such as *Survivorman, How It s Made, Patent Bending* and *Weird Connections.*

Target viewers are men 25-54.

Science Channel is simulcast in HD.

Planet Green

Planet Green was rebranded from Discovery Home in June 2008 with a reach of approximately 50 million U.S. subscribers as of March 31, 2008.

Committed to documenting, preserving and celebrating the planet, Planet Green is the only 24-hour eco-lifestyle television network.

Planet Green speaks to people who want to understand green living and to those who are excited to make a difference by providing tools and information to meet the critical challenge of protecting our environment.

Target viewers are adults 18-54 with a focus on late teens/college-aged viewers, new parents and young baby boomers.

Planet Green is simulcast in HD.

In August 2007, in support of the Planet Green initiative, Discovery purchased TreeHugger.com, an eco-lifestyle website with news, opinions and information spanning the green spectrum. Discovery has also launched companion website PlanetGreen.com with a focus on community and action oriented content.

Investigation Discovery

Launched in March 2003, Investigation Discovery (formerly Discovery Times Channel) reached approximately 50 million U.S. subscribers as of March 31, 2008.

In January 2008, Discovery Times Channel was rebranded as Investigation Discovery, exploiting Discovery s extensive library of fact-based investigation and current affairs programming that sheds new light on our culture, history and the human condition.

Programming highlights include *Dateline On ID, Fugitive Task Force*, and *Diamond Road.*

Target viewers are adults 25-54.

Military Channel

Originally launched in 1996 as Discovery Wings and rebranded as Military Channel in January 2005, the network reached approximately 50 million U.S. subscribers as of March 31, 2008.

Military Channel salutes the sacrifices made by our men and women in uniform with real stories and access to a world of human drama, strategic innovation and long-held traditions.

Original programming includes *Weaponology* and *Showdown: Air Combat.*

Target viewers are men 35-64.

FitTV

Acquired by Discovery in June 2001, FitTV reached approximately 43 million U.S. subscribers as of March 31, 2008.

FitTV is designed to inspire viewers to improve their fitness and well-being on their terms.

Programming features experts and entertaining shows that help people learn how to incorporate fitness into their daily lives.

Target viewers are adults 25-54.

HD Theater

Launched in June 2002, HD Theater reached approximately 14 million U.S. subscribers as of March 31, 2008.

HD Theater was one of the first nationwide 24-hour-a-day, 7-day-a-week high definition networks in the U.S. offering compelling, real-world content including adventure, nature, world culture, technology and engineering programming.

Programming highlights on HD Theater include *Risk Takers, Equator* and the critically acclaimed *Sunrise Earth*. In addition, HD Theater offers motorized HD content including upcoming live muscle car auctions with *Mecum Auto Auctions.*

Target viewers are adults 25-54, particularly men.

Discovery s U.S. networks are wholly owned by Discovery except for (1) Animal Planet, which is co-owned with DHC (10%) and Advance/Newhouse (5%) and (2) OWN Network, which would be a 50-50 joint venture between Discovery and Harpo, Inc.

Discovery networks U.S. also includes Discovery s digital media businesses in the United States, which feature three main components: (1) organic channel websites such as Discovery.com, TLC.com and AnimalPlanet.com and acquired assets including HowStuffWorks.com, TreeHugger.com and Petfinder.com; (2) Discovery Mobile, Discovery s mobile video service; and (3) Discovery on-demand, a free on demand service featuring content from across Discovery s stable of U.S. networks.

Discovery s digital media business is an increasingly important part of Discovery s business, given the broad cross-platform sales and promotional opportunities with Discovery s television networks and the reach of the websites themselves, coupled with the economies realized through programs that can be produced once and used often in both long- and short-term formats across multiple platforms.

The U.S. Internet traffic data set forth herein is according to Omniture, Inc. Discovery s digital assets include:

Discovery.com

This flagship website is the official website for Discovery Channel and was relaunched in 2007 to feature more robust content, including a new media player, increased video clips and new search tools.

Discovery.com attracted more than four million unique visitors in March 2008.

Discovery is enhancing its other vertical sites (e.g. TLC.com, AnimalPlanet.com) to feature more robust content, a new media player, increased video clips and new search tools in order to move beyond being promotional vehicles for Discovery s television networks and focus on visitor growth, engagement and improved monetization.

Discovery s vertical sites attracted approximately 11 million unique visitors in March 2008.

HowStuffWorks.com

Acquired in December 2007, HowStuffWorks.com is an award-winning online source of high-quality, unbiased and easy-to-understand explanations of how the world actually works.

HowStuffWorks.com provides a high-profile platform for promoting and distributing Discovery s extensive library of programming content and for developing advertising opportunities from the additional Discovery video content on this platform. Discovery believes that the mission alignment between Discovery and HowStuffWorks.com will allow for cross promotion and cross selling opportunities across multiple platforms.

HowStuffWorks.com attracted more than 15 million unique visitors in March 2008.

TreeHugger.com

Acquired by Discovery in August 2007, TreeHugger.com is an eco-lifestyle web site that complements the pending debut of the Planet Green television network. Together, TreeHugger.com and PlanetGreen.com will provide consumers with a multi-platform offering across topics and issues around the environment and sustainable development.

TreeHugger.com attracted more than two million unique visitors in March 2008.

Discovery has also launched companion website PlanetGreen.com with a focus on community action oriented content.

Petfinder.com

Acquired in November 2006, Petfinder.com provides an additional promotional platform for the Animal Planet brand.

Over 260,000 homeless pets in over 11,000 animal placement organizations across North America have their own homepages on Petfinder.com, the oldest and largest searchable directory of adoptable pets on the web.

Petfinder.com attracted more than 4.5 million unique visitors in March 2008.

Discovery networks U.S. also has distribution arrangements with the majority of mobile carriers in the U.S. to provide unique made-for-mobile short-form content and long-form episodes of popular titles on mobile devices. Discovery s video-on-demand service is distributed across most major U.S. affiliates, offering a selection of full-length programming such as Discovery Channel s *Mythbusters* and *Deadliest Catch*.

Discovery Networks International

Reaching approximately 859 million cumulative subscribers (as defined below) in over 170 countries outside the U.S as of March 31, 2008, Discovery networks international operates one of the most extensive international television businesses in the media industry and executes a localization strategy by offering customized programming and in-market schedules via more than 100 unique distribution feeds and 35 languages. Discovery networks international encompasses four regional operations covering all major foreign cable and satellite markets, including Asia-Pacific, Latin America, the UK and EMEA (Europe, the Middle East and Africa), and has more than 25 international offices with regional headquarters located in Singapore, New Delhi, Miami and London.

International subscriber statistics are derived from internal data review coupled with external sources when available. As used herein, an international subscriber is a single household that receives the applicable Discovery network or programming service from its cable, satellite or other television provider, including those who receive Discovery networks from pay-television providers without charge pursuant to various pricing plans that include free periods and/or free carriage. The term cumulative subscribers outside the U.S. refers to the collective sum of the total number of international subscribers to each of Discovery s networks or programming services outside of the U.S. By way of example, two international households that each receive five Discovery networks from their cable provider represent 10 cumulative subscribers outside the U.S. Cumulative subscribers outside the U.S. include subscriptions for branded programming blocks in China, which are generally provided without charge to third-party channels and represented approximately 280 million cumulative subscribers outside the U.S. as of March 31, 2008.

Discovery s international networks are wholly owned by Discovery except (1) the international Animal Planet channels which are generally 50-50 joint ventures with the BBC, (2) People+Arts which operates in Latin America and Iberia as a 50-50 joint venture with the BBC and (3) several channels in Japan, Canada and Poland which operate as joint ventures with strategic local partners and which are not consolidated in Discovery s financial statements but whose subscribers are included in Discovery s international cumulative subscribers. Pursuant to the terms of the Animal Planet international joint ventures, BBC has the right, subject to certain conditions, to cause Discovery to acquire BBC s interest in these joint ventures. Pursuant to the terms of the People + Arts joint venture, BBC has the right, subject to certain conditions, to cause Discovery to either acquire BBC s interest in, or sell to the BBC Discovery s interest in, this joint venture. Certain preliminary steps have been taken with respect to the exercise by BBC of its rights; however, we cannot assure you whether BBC will exercise either or both of these rights.

Led by flagship brand Discovery Channel, Discovery networks international distributes 16 network entertainment brands, including:

Discovery Channel

Launched internationally in 1989, Discovery Channel reached approximately 248 million international subscribers in more than 170 countries as of March 31, 2008.

Discovery Channel s international programming includes documentaries, docudramas and reality formats covering a wide range of topics and themes, including human adventure and exploration, engineering, science, history and world culture.

Animal Planet

Launched internationally in 1997, Animal Planet reached approximately 218 million international subscribers in over 160 countries as of March 31, 2008.

Animal Planet is dedicated to mankind s fascination with the creatures that share our world, featuring programs such as *Meerkat Manor, Unearthed* and *Lemur Street*.

The international Animal Planet channels are generally a 50-50 joint venture with the BBC.

Discovery Lifestyle Networks

Launched beginning in 1998, Discovery Lifestyle Networks reached approximately 227 million international subscribers in over 90 countries as of March 31, 2008.

Discovery Lifestyle Networks is a global portfolio of three lifestyle brands offering inspirational content that encourages viewers to pursue unique interests and experiences: Discovery Travel & Living, Discovery Home & Health and Discovery Real Time.

Discovery Travel & Living provides a mix of lifestyle programming on travel, food, design and décor. Discovery Home & Health provides relevant and practical programming on relationships, babies, beauty and wellbeing. Discovery Real Time features practical and motivating programming on how to make the most of free time.

Discovery Science

Launched internationally in 1998, Discovery Science reached approximately 31 million international subscribers in over 60 countries as of March 31, 2008.

Discovery Science uncovers fascinating clues to the questions that have eluded us for centuries and reveals life s greatest mysteries and smallest wonders.

Discovery Kids

Launched internationally in 1997, Discovery Kids reached approximately 22 million international subscribers in over 25 countries across Latin America, the Carribean and Canada as of March 31, 2008.

Discovery Kids provides a unique environment that nurtures children s curiosity using characters and stories, enabling them to relate to real-life experiences.

Discovery HD

Launched internationally in 2005, Discovery HD reached subscribers in 16 countries as of March 31, 2008.

Discovery HD showcases dynamic content from Discovery s library of thousands of hours of visually compelling HD footage including *Discovery Atlas.*

People+Arts

Launched in 1997, People+Arts reached approximately 20 million international subscribers in Latin America, Spain and Portugal as of March 31, 2008.

People+Arts is the entertainment network from the BBC and Discovery that explores the complete range of human emotions, with engaging storytelling that is moving, unexpected and authentic.

People + Arts is a 50-50 joint venture with the BBC.

DMAX Germany

Launched in Germany in 2006, DMAX reached approximately 31 million homes in Germany as of March 31, 2008.

DMAX is a free-to-air service which has broad distribution. DMAX generates only advertising revenue, offering a broad range of original content from Germany and around the world including documentaries, talk shows and reality-based series.

Discovery networks international also includes the following television channels: Discovery Civilization, Discovery Geschichte, Discovery Historia, Discovery Knowledge, Discovery Turbo, and DMAX UK.

A-1-10

The following Spanish-language networks are distributed to U.S. subscribers, but are operated by and included as part of Discovery networks international for financial reporting and management purposes:

Discovery en Español

Launched in the U.S. in June 1998, Discovery en Español reached approximately eight million U.S. subscribers as of March 31, 2008.

Discovery en Español is a non-fiction network delivering content that stimulates, informs and empowers, giving viewers a fascinating look at the incredible and often surprising world from an Hispanic perspective.

Discovery en Español is designed to give viewers more of the programming they enjoy including original programming developed specifically for Spanish-speaking audiences.

Target viewers are adults 18-49, particularly men.

Discovery Familia

Launched in the U.S. in August 2007, Discovery Familia reached approximately one million U.S. subscribers as of March 31, 2008.

Discovery Familia is Discovery s Spanish-language network dedicated to bringing the best educational and entertaining, family-oriented programming to kids and families.

Target viewers are Hispanic children, women and families.

Discovery networks international also operates Antenna Audio which was acquired by Discovery in 2006, and is a leading provider of audio and multimedia tours to museums, exhibitions, historic sites and visitor attractions around the world. Each year, more than 20 million visitors purchase Antenna Audio s tours in 12 languages across 20 countries at approximately 450 of the world s most famous, fascinating and frequented locations, including museums such as the Metropolitan Museum of Art, the Musée du Louvre and Tate; historic and cultural sites including Graceland, Château de Versailles and Alcatraz; and popular destinations such as the Statue of Liberty and Yosemite National Park.

Discovery networks international s digital business is in its early stages of development. Discovery s international websites currently function as marketing vehicles for the network brands. Discovery networks international also operates a program sales business pursuant to which it sells programming internationally and a licensing business pursuant to which it licenses its brands for consumer products internationally.

Discovery Commerce and Education

<u>Discovery Commerce</u>

Discovery commerce represents an additional revenue stream for Discovery. It also plays an important role in support of Discovery s overall strategic objectives by instilling viewer loyalty. In 2007, as part of a company-wide strategic review, Discovery made the decision to discontinue its brick-and-mortar retail stores and instead focus on exploiting its on-air brands and increasing the reach of its products through its e-commerce platform and licensing arrangements. In the third quarter of 2007, Discovery completed the closing of its 103 mall-based and stand-alone Discovery Channel stores.

The division s platforms now include an e-commerce business, seasonal catalogs and domestic licensing business:

Discoverystore.com is an e-commerce site where customers can shop for a large assortment of proprietary Discovery merchandise and other products. Discoverystore.com logged more than 12 million unique visitors in 2007. Discoverystore.com also reaches consumers through relationships with leading e-commerce sites such as Amazon.com.

The Discovery Channel Store Catalog is distributed to over nine million consumers annually and highlights a selection of proprietary and other products for the whole family. The catalog is a highly targeted marketing and branding tool driving online and phone sales. It also adds value as a cross promotional vehicle for network and corporate initiatives.

Domestic Licensing has agreements with key manufacturers and retailers, including JAKKS, Activision, and others to develop long-term, strategic programs that translate Discovery s network brands and signature properties into an array of merchandising opportunities. From Animal Planet toy and pet products, *Mythbusters* books, DVDs and calendars to *Miami Ink* apparel and accessories, domestic licensing develops products that capture the look and feel of Discovery s core brands and programs.

Discovery Education

Discovery education provides video-based broadband educational content through subscription services to public and private K-12 schools serving over one million teachers nationwide. Discovery s flagship educational service, *Discovery Education streaming*, is an online video-on-demand teaching service that features 4,000 digital videos and 40,000 content specific video clips correlated to state K-12 curriculum standards.

Discovery education also publishes and distributes content on DVD, VHS, and CD-ROM through catalogs, an online teacher store, and a network of distributors. Discovery education also participates in licensing and sponsorship programs with corporate partners and supports Discovery s digital initiatives by providing educational content in multiple formats that meet the needs of teachers and students.

Content Development

Discovery s content development strategy is designed to increase viewership, maintain innovation and quality leadership, and provide value for its distributors and advertising customers. Discovery s production agreements fall into three categories: commissions, co-productions and acquisitions. Commissions refer to programming for which Discovery generally owns most or all rights for at least 10 years and, in exchange for paying for all production costs, retains all editorial control. Co-productions refer to programs where Discovery retains significant (but more limited) rights to exploit the programs. The rights package retained by Discovery is generally in proportion to the portion of the total project costs covered by Discovery, which generally ranges from 25-70% of the total project cost. Co-productions are typically high-cost projects for which neither Discovery nor its co-producers wish to bear the entire cost or productions in which the producer has already taken on an international broadcast partner. Acquisitions are license agreements for films or series that have already been produced.

As revenue and network distribution grows, Discovery s program mix matures from acquired content to sharing in co-productions to full commissions. To minimize programming expense in the early stages, as an audience base begins to form, acquired programming is used to a greater extent and repeated frequently. The transition from acquired content provides for more customized use of programming for individual networks and broader rights for re-use on television networks and new platforms.

Discovery sources content from a wide range of producers, building long-standing relationships with some of the world s leading non-fiction production companies as well as consistently developing and encouraging young independent producers. Discovery also has long-term relationships with some of the world s most significant non-fiction program producers, including the British Broadcasting Corporation.

The programming schedule on Discovery s most widely distributed networks is mostly a mix of high-cost special event programming combined with miniseries and regular series. Large-scale programming events such as *Planet Earth, Nefertiti Resurrected, Walking With Cavemen* and *Blue Planet* bring brand prestige, favorable media coverage and substantial cross-promotional opportunities for other content platforms. Given the success of these global programming tent-poles, Discovery will continue to invest in a mix of programs that have the potential to draw larger audiences while also increasing the investment in regularly scheduled series. Brand-defining series such as *Mythbusters, Dirty Jobs, Deadliest Catch, What Not To Wear, Man Vs Wild, John And Kate Plus 8* and *Little People, Big World* bring predictability to the schedule, increase repeat viewership and channel loyalty, and create new sub-brands that can be exploited and monetized across other platforms and around the world.

Discovery has an extensive library of over 100,000 hours of programming and footage that provides a high-quality source of programming for debuting new services quickly without significant incremental spending. For example, Discovery was able to exploit the long-tail popularity of its extensive non-fiction library of forensics and investigation programming to debut the re-branded Investigation Discovery channel in January 2008. Programming can be re-edited and updated to provide topical versions of subject matter in a cost-effective manner. Library development also provides a mechanism to share program ideas around the world and repurpose for display on new digital and mobile platforms.

Sources of Revenue

Discovery earns revenue principally from (1) the receipt of affiliate fees from the global delivery of non-fiction programming pursuant to affiliation agreements with cable television operators, direct-to-home satellite operators and other distributors, (2) advertising sales on its television networks and websites and (3) product and subscription sales in the commerce and education businesses. No single customer represented more than 10% of Discovery s consolidated revenue for the year ended December 31, 2007.

Distribution Revenue

Distribution revenue represented 47% of Discovery s consolidated total revenue in 2007. Distribution revenue in the U.S. represented 44% of U.S. networks revenue, and international distribution fees represented 60% of international networks revenue in 2007. Distribution revenue is generated through affiliation agreements with cable, satellite and other television distributors, which have a typical term of 3-7 years. These affiliation agreements generally provide for the level of carriage Discovery s networks will receive, such as channel placement and package inclusion (whether on more widely distributed, broader packages or lesser-distributed, specialized packages), and for payment of a fee to Discovery based on the numbers of subscribers that receive its networks. Upon the launch of a new channel, Discovery may initially pay distributors to carry such channel (such payments are referred to as launch incentives), or may provide the channel to the distributor for free for a predetermined length of time. Discovery has long-term contracts with distributors representing most cable and satellite operators around the world, including the largest operators in the U.S. and major international distributors. In the U.S., 90% of distribution revenue comes from the top eight distributors, with whom Discovery has agreements that expire at various times beginning in 2008 through 2014. Discovery is currently in negotiations to renew distribution agreements for carriage of its networks involving a substantial portion of its domestic subscribers. A failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on Discovery s results of operations and financial position. Outside of the U.S., Discovery has agreements with numerous distributors with no individual agreement representing more than 10% of Discovery s international distribution revenue.

Advertising Revenue

Advertising revenue comprised 43% of Discovery s consolidated total revenue in 2007. Advertising revenue in the U.S. represented 51% of U.S. networks revenue, and international advertising revenue represented 32% of international networks revenue in 2007. Discovery typically builds network brands by securing as broad a subscriber base as possible. After obtaining sufficient distribution to provide an attractive platform for advertising, Discovery increases its investment in programming and marketing to build audience share and drive strong ratings performance in order to increase advertising sales opportunities. Advertising revenue generated by each program service depends on the number of subscribers receiving the service, viewership demographics, the brand appeal of the network and ratings as determined by third-party research companies such as The Nielsen Company. Revenue from advertising is subject to seasonality and market-based variations. Advertising revenue is typically highest in the second and fourth quarters. Revenue can also fluctuate due to the popularity of particular programs and viewership ratings. In some cases, advertising sales are subject to ratings guarantees that may require Discovery to provide additional advertising time or refunds if the guarantees are not met.

Discovery sells advertising time in both the upfront and scatter markets. In the upfront market, advertisers buy advertising time for the upcoming season, and by buying in advance, often receive discounted rates. In the scatter market, advertisers buy advertising time close to the time when the ads will be run, and often pay a premium. The mix between the upfront and scatter markets is based upon a number of factors such as pricing, demand for advertising time and economic conditions.

The company s two flagship networks, Discovery Channel and TLC, target key demographics that have historically been considered attractive to advertisers, notably viewers in the 18-54 age range who are viewed as having significant spending power. The Discovery Channel s target audience skews toward male viewers, while TLC targets female viewers, providing a healthy gender balance in Discovery s portfolio for distribution and advertising clients.

Discovery benefits by having a portfolio of networks appealing to a broad range of demographics. This allows Discovery to create advertising packages that exploit the strength of its large networks to benefit smaller niche or targeted networks and networks on digital tiers. Utilizing the strength of its diverse networks, coupled with its online and digital platforms, Discovery seeks to create innovative programming initiatives and multifaceted campaigns for the benefit of a wide variety of companies and organizations who desire to reach key audience demographics unique to each network. Discovery delivers customized, integrated marketing campaigns to clients worldwide by catering to the special needs of multi-regional advertisers who are looking for integrated campaigns that move beyond traditional spot advertising to include sponsorships, product placements and other opportunities.

Discovery also generates advertising revenue from its websites. Discovery sells advertising on its websites both on a stand-alone basis and as part of advertising packages with its television networks.

Commerce and Education Revenue

Discovery commerce and education derives revenue principally from the sale of products online and through its catalogs, licensing royalties and subscriptions to its educational streaming services. As part of its commerce business, Discovery has a domestic consumer products licensing business which licenses Discovery s brands in connection with merchandise, videogames and publishing. Discovery is generally paid a royalty based upon a percentage of its licensees wholesale revenues, with an advance against future expected royalties. As part of its strategic reorganization described above, Discovery closed its 103 retail stores in 2007.

E-commerce and catalog sales are highly seasonal with a majority of the sales occurring in the fourth quarter due to the holiday season. Licensing revenue may vary from period to period depending upon the popularity of the properties available for license and the popularity of licensed products in a particular period. Subscription sales to Discovery s educational streaming services are primarily sold at the beginning of each school year as school budgets are appropriated and approved. The revenue derived from the subscription agreements are generally recognized over the school year. Discovery education also provides products that are sold throughout the school year. In 2007, revenue from e-commerce and catalog sales (excluding sales from Discovery s retail stores which were closed in 2007), licensing and education subscriptions was 54%, 5% and 27%, respectively, of total revenue for Discovery commerce and education.

Operating Expenditures

Discovery s principal operating costs consist of programming expense, sales and marketing expense, personnel expense and general and administrative expenses. Content amortization expense is Discovery s largest category, representing 35% of Discovery s 2007 consolidated operating expenses, as investment in maintaining high-quality editorial and production values is a key differentiator for Discovery content. In connection with creating original content, Discovery incurs production costs associated with acquiring new show concepts and retaining creative talent, including actors, writers and producers. Discovery also incurs higher production costs when filming in HD versus standard definition. Discovery incurs sales and marketing expense to promote brand recognition and to secure quality distribution channels worldwide.

REGULATORY MATTERS

Discovery s businesses are subject to and affected by regulations of U.S. federal, state and local government authorities, and Discovery s international operations are subject to laws and regulations of local countries and international bodies such as the European Union. The rules, regulations, policies and procedures affecting Discovery s businesses are constantly subject to change. These descriptions are summary in nature and do not purport to describe all present and proposed laws and regulations affecting Discovery s businesses.

MVPD Programming

The FCC s Program Access Rules prevent a satellite cable programming vendor in which a cable operator has an attributable ownership interest under FCC rules from entering into exclusive contracts for programming with a cable operator and from discriminating among competing Multi-Channel Video Programming Distributors (MVPDs) in the price, terms and conditions for the sale or delivery of programming. These rules also permit MVPDs to initiate complaints to the FCC against program suppliers if an MVPD is unable to obtain rights to programming on nondiscriminatory terms. The FCC recently voted to extend the Program Access Rules exclusivity ban for an additional five years, and has proposed other changes that would increase the rights of MVPDs. Discovery is currently subject to the Program Access Rules because: (a) Advance/Newhouse, which operates cable systems, holds an attributable interest in Discovery under the FCC s rules on ownership interests; (b) Mr. John Malone, who holds an attributable interest in Discovery through Discovery Holding Company, currently holds an attributable interest in a company whose subsidiary operates a cable television system; and (c) as part of the FCC s approval of the application of Liberty, another company in which Mr. Malone holds an attributable interest and serves as Chairman of the Board, to acquire de facto control of DirecTV, a direct broadcast satellite provider, the FCC imposed program access conditions on Discovery s networks for as long as Mr. Malone or any other officer or director of Liberty or DirecTV holds an attributable interest in Discovery and for as long as Liberty holds an attributable interest in DirecTV, provided the FCC s program access rules are otherwise in effect.

À la Carte Programming and Unbundling Proposals

The FCC previously initiated proceedings inquiring about its authority to require MVPD programming to be provided to subscribers on an à la carte basis, which would require them to be sold as individual channels rather than as part of program tiers. It also has proposed that satellite cable program vendors and broadcasters be required to sell programming to MVPDs on an unbundled basis, so that programming vendors like Discovery would be precluded from requiring MVPDs to take a basket of program channels. Some members of Congress also have indicated an interest in enacting legislation to achieve these same goals.

Must Carry, Leased Access and Program Carriage

The Cable Act of 1992 imposed must carry regulations on cable systems, requiring them to carry the signals of local broadcast television stations. Direct broadcast satellite systems are also subject to their own must carry rules. The FCC recently adopted an order requiring cable systems, following the anticipated end of analog television broadcasting in February 2009, to carry the digital signals of local television stations that have must carry status and to carry the same signal in analog format, or to carry the signal in digital format alone, provided that all subscribers have the necessary equipment to view the broadcast content. The FCC in November 2007 announced that it will require cable operators to provide independent programmers with leased capacity at rates significantly below those now prevailing. In June 2007, the FCC released a notice of proposed rulemaking considering changes to its program carriage rules, which govern carriage disputes between programmers and distributors. Changes to any of these rules could affect the terms under which Discovery s services are distributed

Children s Programming

FCC rules limit the amount and content of commercial matter that may be shown on cable channels during programs designed for children 12 years of age or younger. Additionally, new rules, which became effective in 2007, restrict the ability of programmers to display website addresses during children s programming unless those websites meet certain criteria designed to limit exposure to commercial matter. The FCC and other policymakers are examining other issues that could affect advertising during programming designed for children.

Regulation of the Internet

Discovery operates several internet websites which Discovery uses to distribute information about and supplement Discovery s programs and to offer consumers the opportunity to purchase consumer products and services. Internet services are now subject to regulation in the United States relating to the privacy and security of personally identifiable user information and acquisition of personal information from children under 13, including the federal Child Online Protection Act (COPA) and the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act (CAN-SPAM). In addition, a majority of states have enacted laws that impose data security and security breach obligations. Additional federal and state laws and regulations may be adopted with respect to the Internet or other online services, covering such issues as user privacy, child safety, data security, advertising, pricing, content, copyrights and trademarks, access by persons with disabilities, distribution, taxation and characteristics and quality of products and services. In addition, to the extent Discovery offers products and services to online consumers outside the United States, the laws and regulations of foreign jurisdictions, including, without limitation, consumer protection, privacy, advertising, data retention, intellectual property, and content limitations, may impose additional compliance obligations on Discovery.

COMPETITION

Cable and satellite network programming is a highly competitive business in the United States and worldwide. Discovery s cable and satellite networks and websites generally compete for advertising revenue with other cable and broadcast television networks, online and mobile outlets, radio programming and print media. Discovery s networks and websites also compete for their target audiences with all forms of programming and other media provided to viewers, including broadcast networks, local over-the-air television stations, competitors pay and basic cable television networks, pay-per-view and video-on-demand services, online activities and other forms of news, information and entertainment. Discovery s networks also compete with other television networks for distribution and affiliate fees derived from distribution agreements with cable television operators, satellite operators and other distributors. The Discovery commerce and education division also operates in highly competitive industries with Discovery s e-commerce and catalogue business competing with brick and mortar and online retailers and Discovery s education business competing with other providers of educational products to schools, including providers with long-standing relationships, such as Scholastic.

INTELLECTUAL PROPERTY

Discovery s intellectual property assets principally include copyrights in television programming, websites and other content, trademarks in brands, names and logos, domain names and licenses of intellectual property rights of various kinds.

Discovery is fundamentally a content company and the protection of its brands and content are of primary importance. To protect Discovery s intellectual property assets, Discovery relies upon a combination of copyright, trademark, unfair competition, trade secret and Internet/domain name statutes and laws and contract provisions. However, there can be no assurance of the degree to which these measures will be successful in any given case. Moreover, effective intellectual property protection may be either unavailable or limited in certain foreign territories. Policing unauthorized use of Discovery s products and services and related intellectual property is often difficult and the steps taken may not always prevent the infringement by unauthorized third parties of Discovery s intellectual property. Discovery seeks to limit that threat through a combination of approaches.

Third parties may challenge the validity or scope of Discovery s intellectual property from time to time, and such challenges could result in the limitation or loss of intellectual property rights. Irrespective of their validity, such claims may result in substantial costs and diversion of resources which could have an adverse effect on Discovery s operations. In addition, piracy, including in the digital environment, continues to present a threat to revenues from products and services based on intellectual property.

Appendix A Information Concerning Discovery Communications Holding, LLC Including Its Wholly Owned Subsidiary Discovery Communications, LLC

Part 2 Management s Discussion and Analysis of Financial Condition and Results of Operations

This Part 2 of Appendix A discusses the financial condition and results of operations of Discovery Communications Holding, LLC including its wholly owned subsidiary Discovery Communications, LLC. Please note that references in this Part 2 to Discovery refer to the intermediary holding company Discovery Communications Holding, LLC, and references to DCI refer to Discovery Communications, Inc., which was converted into the operating company Discovery Communications, LLC.

Overview

Discovery is a leading global media and entertainment company that provides original and purchased programming across multiple distribution platforms in the United States and more than 170 other countries, including television networks offering customized programming in 35 languages. Discovery s strategy is to optimize the distribution, ratings and profit potential of each of its branded channels. Discovery also develops and sells consumer and educational products and services in the United States and internationally, and owns and operates a diversified portfolio of website properties and other digital services. Discovery operates through three divisions: (1) Discovery networks U.S., or U.S. networks, (2) Discovery networks international, or international networks, and (3) Discovery commerce and education.

Discovery s media content is designed to target key audience demographics and the popularity of its programming creates a reason for advertisers to purchase commercial time on Discovery s channels. Audience ratings are a key driver in generating advertising revenue and create demand on the part of cable television operators, direct-to-home or DTH satellite operators and other content distributors to deliver Discovery s programming to their customers.

In addition to growing distribution and advertising revenue for its branded channels, Discovery is focused on growing revenue across new distribution platforms, including brand-aligned web properties, mobile devices, video-on-demand and broadband channels, which serve as additional outlets for advertising and affiliate sales, and provide promotional platforms for its programming. Discovery also operates internet sites providing supplemental news, information and entertainment content that are aligned with its television programming. Discovery s recent acquisition of HowStuffWorks.com creates a stronger platform for distributing Discovery s extensive video library.

As a public company, Discovery will incur incremental legal, accounting and other expenses that the company did not incur as a private company. Discovery will incur costs associated with public company reporting requirements and costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002. Discovery has and will continue to hire additional accounting, financial, legal and compliance staff and consulting support with appropriate public company experience. In addition, Discovery will incur additional costs due to the new attestation requirements of the Act and the related attestation and assessment of the independent registered public accounting firm. Discovery expects that these reporting and other obligations will place significant demands on Discovery s management, administrative, operational, internal audit and financial resources, increase its legal and financial compliance costs and will make some activities more time-consuming and costly. These additional activities are not expected to adversely impact significant business initiatives including Discovery s negotiations to renew distribution agreements. Discovery is currently evaluating the impact these activities will have on its results of operations. Any of these expenses or failure to achieve and maintain effective internal controls could have a material adverse effect on Discovery s results of operations.

U.S. Networks

U.S. networks is Discovery s largest division, which owns and operates 11 cable and satellite channels, including Discovery Channel, TLC and Animal Planet, as well as a portfolio of website properties and other digital services. U.S. networks also provides distribution and advertising sales services for Travel Channel and distribution services for BBC America and BBC World News. U.S. networks derives revenue primarily from distribution fees and advertising sales, which comprised 46% and 49%, respectively, of revenue for this division for the three months ended March 31, 2008, and 44% and 51%, respectively, for the year ended December 31, 2007. During the three months ended March 31, 2008 and each of the years ended December 31, 2007, 2006 and 2005, Discovery Channel and TLC collectively generated more than 65% of U.S. networks total revenue. U.S. networks earns distribution fees under multi-year affiliation agreements with cable operators, DTH satellite operators and other distributors of television programming. Distribution fees are based on the number of subscribers receiving Discovery s programming. Upon the launch of a new channel, Discovery may initially pay distributors to carry such channel (such payments are referred to as launch incentives), or may provide the channel to the distributor for free for a predetermined length of time. Launch incentives are amortized on a straight-line basis as a reduction of revenue over the term of the affiliation agreement. U.S. networks sells commercial time on its networks and websites. The number of subscribers to Discovery s channels, the popularity of its programming and its ability to sell commercial time over a group of channels are key drivers of advertising revenue.

Several of Discovery s domestic networks, including Discovery Channel, TLC and Animal Planet, are currently distributed to substantially all of the cable television and direct broadcast satellite homes in the U.S. Accordingly, the rate of growth in U.S. distribution revenue in future periods is expected to be less than historical rates. Discovery s other U.S. networks are distributed primarily on the digital tier of cable systems and equivalent tiers on DTH platforms and have been successful in maximizing their distribution within this more limited universe. There is, however, no guarantee that these digital networks will ever be able to gain the distribution levels or advertising rates of Discovery s major networks. Discovery s contractual arrangements with U.S. distributors are renewed or renegotiated from time to time in the ordinary course of business. Although U.S. networks believes carriage and marketing of its networks by the larger affiliates will continue, the loss of one or more affiliate agreements could have a material adverse impact on U.S. networks results of operations. Discovery is currently in negotiations to renew distribution agreements for carriage of its networks involving a substantial portion of its domestic subscribers. A failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on Discovery s results of operations and financial position.

U.S. networks largest single cost is the cost of programming, including production costs for original programming. U.S. networks amortizes the cost of original or purchased programming based on the expected realization of revenue resulting in an accelerated amortization for Discovery Channel, TLC and Animal Planet and straight-line amortization over three to five years for the remaining networks.

U.S. networks top strategic priorities are (1) maintaining the company s focus on creative excellence in nonfiction programming and expanding the portfolio s brand entitlement by developing compelling content that increases audience growth, builds advertising relationships and supports continued distribution revenue on all platforms, (2) leveraging Discovery s distribution strength in the U.S. to build additional branded channels and businesses that can sustain long-term growth and profitability, and (3) developing and growing compelling and profitable content experiences on new platforms that are aligned with its core branded channels.

International Networks

International networks manages a portfolio of channels, led by the Discovery Channel and Animal Planet brands, that are distributed in virtually every pay-television market in the world through an infrastructure that includes major operational centers in London, Singapore, New Delhi and Miami. International networks regional operations cover most major markets including the U.K., Europe, Middle East and Africa (EMEA), Asia, Latin America and India. International networks currently operates over 100 unique distribution feeds in 35 languages with channel feeds customized according to language needs and advertising sales opportunities. Most of the division s channels are wholly owned by Discovery with the exception of (1) the international Animal Planet channels, which are generally joint ventures in which the BBC owns 50%, (2) People + Arts, which operates in Latin America and Iberia as a 50-50 joint venture with the BBC and (3) several channels in Japan, Canada and Poland, which operate as joint ventures with strategically important local partners.

Similar to U.S. networks, the primary sources of revenue for international networks are distribution fees and advertising sales, and the primary cost is programming. International networks executes a localization strategy by offering customized content and localized schedules via its distribution feeds. Distribution revenue represents approximately 60% of the division s operating revenue and continues to deliver growth in markets with the highest potential for pay television expansion. Advertising sales are increasingly important to the division s financial success. International television markets vary in their stages of development. Some, notably the U.K., are among the more advanced digital multi-channel television markets in the world, while others remain in the analog environment with varying degrees of investment from operators in expanding channel capacity or converting to digital. Discovery believes there is future growth in many markets including Latin American and Central and Eastern Europe that are in the early stage of pay TV evolution. In developing pay TV markets, Discovery expects to see advertising revenue growth from its localization strategy and the shift of advertising spending from broadcast to pay TV. In relatively mature markets, such as the U.K., the growth dynamic is changing. Increased penetration and distribution are unlikely to drive rapid growth in those markets. Instead, growth is expected in advertising sales, which are driven by increased audience performance and viewing market share. To help further drive this focus, Discovery entered the global free-to-air television business with the acquisition of a free-to-air channel in Germany (DMAX) in early 2006.

Discovery s international businesses are subject to a number of risks including fluctuations in currency exchange rates, regulatory issues, and political instability. The past few years have seen relative economic and political stability, but these trends may not be indicative of future events. Changes in any of these areas could adversely affect the performance of the international networks.

International networks priorities include maintaining a leadership position in nonfiction entertainment in international markets, and continuing to grow and improve the performance of the international operations. These priorities will be achieved through expanding local advertising sales capabilities, creating licensing and digital growth opportunities, and improving operating efficiencies by strengthening development and promotional collaboration between U.S. and international network groups.

Commerce and Education

During 2007, Discovery evaluated its commerce business and made the decision to transition from running brick-and-mortar retail locations to leveraging its products through retail arrangements and an e-commerce platform. In the third quarter, Discovery completed the closing of its 103 mall-based and stand-alone Discovery Channel stores. As a result of the store closures, Discovery s results of operations have been prepared to reflect the retail store business as discontinued operations. Accordingly, the revenue, costs and expenses of the retail store business have been excluded from the respective captions in Discovery financial statements and have been reported as discontinued operations.

Discovery commerce is now focused on its e-commerce, catalog, and domestic licensing businesses. Discovery commerce leverages its partnerships with leading e-commerce portals such as Amazon and QVC, to showcase key products, increase customer outreach, acquisition and conversion and maximize transaction opportunities. Discovery commerce adds value to Discovery s television assets by reinforcing consumer loyalty and creating opportunities for Discovery s advertising and distribution partners.

Discovery s education business will continue to focus on its direct-to-school distribution platform and its other premium direct-to-school subscription services in addition to publishing and distributing content on DVD, VHS, online and through a network of distribution partners. Discovery education also participates in licensing and sponsorship programs with corporate partners.

Acquisitions

To complement its existing businesses, Discovery completed several acquisitions in 2006 and 2007. Among these acquisitions are (i) DMAX, a free-to-air network in Germany, which was acquired in February 2006, (ii) Antenna Audio, a provider of audio tours and multimedia at museums and cultural attractions around the globe, which was acquired in March 2006, (iii) PetFinder.com, a facilitator of pet adoptions and PetsIncredible, a producer of pet-training videos were acquired in November 2006, (iv) TreeHugger.com, an eco-lifestyle website to supplement the Planet Green initiative was acquired in August 2007 and (v) HowStuffWorks.com, an online source of easy-to-understand explanations of how the world works, which was acquired in December 2007. These entities have been included in Discovery s results of operations since their respective dates of acquisition.

Dispositions

On May 14, 2007 Discovery and Cox Communications Holdings, Inc. (Cox) completed an exchange of Cox s 25% ownership interest in Discovery for all of the capital stock of a subsidiary of Discovery that held Travel Channel, travelchannel.com and approximately $1.3 billion in cash (the Cox Transaction). Discovery raised the cash component through additional debt financing, and retired the membership interest previously owned by Cox.

DCI Restructuring

Discovery was formed in the second quarter of 2007 as part of a restructuring (the DCI Restructuring) completed by Discovery Communications, Inc. (DCI). In the DCI Restructuring, DCI became a wholly-owned subsidiary of Discovery, and the former shareholders of DCI, including DHC, became members of Discovery. Discovery is the successor reporting entity to DCI. In connection with the DCI Restructuring, Discovery applied pushdown accounting and each shareholder s basis in DCI as of May 14, 2007 has been pushed down to Discovery resulting in $4.3 billion of goodwill being recorded by Discovery. Since goodwill is not amortizable, there is no current income statement impact for this change in basis.

Operational Restructuring

During 2007, Discovery undertook broad restructuring activities to better position its portfolio of assets and to facilitate growth and enhanced profitability. These activities resulted in additional operating expenses that impact the comparability of results from 2007 to 2008. The more significant cost of revenue items include fourth quarter 2007 content impairment charges of $129,091,000 at U.S. Networks and $9,976,000 at Education which both impacted content amortization expense when comparing expenses in the first quarter of 2008 to those in the corresponding prior year period. Additionally, a $10,999,000 restructuring charge as reflected in the financial statements was recorded in the first quarter of 2007, with no similar charge recorded in 2008.

Adjusted OIBDA

Discovery evaluates the performance of its operating segments based on financial measures such as revenue and adjusted operating income before depreciation and amortization (Adjusted OIBDA). Discovery defines Adjusted OIBDA as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding long-term incentive compensation). Discovery management uses Adjusted OIBDA to assess the operational strength and performance of its operating segments. Management uses this measure to view operating results, perform analytical comparisons, identify strategies to improve performance and allocate resources to each operating segment. Discovery believes Adjusted OIBDA is an important measure to investors because it allows them to assess the performance of each business using the same metric that management uses and also provides investors a measure to analyze operating performance of each business division against historical data. This measure of performance excludes depreciation and amortization, long-term incentive compensation, and restructuring charges that are included in the measurement of operating income pursuant to GAAP. Discovery s Long Term Incentive Plan (LTIP) (which is also referred to as the Discovery Appreciation Program, or DAP) tracks the performance of DHC Series A common stock, and compensation related to the LTIP is indexed to the value of such common stock. Stock-based compensation is included in the calculation of operating income. Discovery excludes these charges from its calculation of Adjusted OIBDA due to their significant volatility. Since Adjusted OIBDA is a non-GAAP measure, it should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance reported in accordance with GAAP.

Results of Operations Three Months Ended March 31, 2008 and 2007

The following discussion of Discovery s results of operations is presented in two parts to assist the reader in better understanding Discovery s operations. The first section is an overall discussion of Discovery s consolidated operating results. The second section includes a more detailed discussion of revenue and expense activity of Discovery s three operating divisions: Discovery networks U.S., or U.S. networks, Discovery networks international, or international networks, and Discovery commerce and education.

Consolidated Results

	Three Months Ended March 31,	
	2008	2007
	amounts in thousands	
Revenue:		
Advertising	$ 304,129	289,769
Distribution	402,683	369,879
Other	87,766	50,550
Total revenue	794,578	710,198
Expenses:		
Cost of revenue	(230,435)	(243,523)
Selling, general and administrative (SG&A) expense	(278,211)	(276,247)
Adjusted OIBDA	285,932	190,428
Restructuring charges		(10,999)
Benefit (expense) arising from long-term incentive plans	35,857	(11,721)
Depreciation and amortization	(37,720)	(32,433)
Operating income	284,069	135,275
Other income (expense):		
Interest expense, net	(68,720)	(44,558)
Unrealized gains (losses) from derivative instruments, net	(16,095)	1,065
Minority interests in consolidated subsidiaries	(6,806)	(707)
Other	311	2,049
Income from continuing operations before income taxes	192,759	93,124
Income tax expense	(87,541)	(41,710)
Income from continuing operations	105,218	51,414
Loss from discontinued operations, net of income taxes		(8,300)
Net income	$ 105,218	43,114

Revenue. Discovery s consolidated revenue increased 12% for the three months ended March 31, 2008, as compared to the corresponding prior year period, due to increases of 74% in other revenue, 9% in distribution revenue, and 5% in advertising revenue. Other revenue primarily increased as a result of (i) a $16,435,000 increase in ancillary revenue from a joint venture primarily due to an unprecedented level of seasonal sales driven by the success of the Planet Earth programming in 2007, which is not expected to continue at the same level, (ii) $8,688,000 earned by U.S. networks representation of Travel Channel, and (iii) the impact of the acquisition of HowStuffWorks in December 2007. Increased distribution revenue is primarily due to international networks subscriber growth and favorable exchange rates, combined with annual contract increases for the fully distributed U.S. networks, offset by the disposition of Travel Channel. Increases in advertising revenue were primarily due to higher viewership in Europe and the impact of favorable exchange rates, higher cash sellouts and higher scatter rates across most networks at the U.S. networks, offset by the disposition of Travel Channel. Program ratings are an indication of consumer acceptance and directly affect Discovery s ability to generate revenue during the airing of its programs. If programs do not achieve sufficient acceptance, the revenue from advertising sales may decline.

Cost of revenue. Cost of revenue, which includes content amortization and other production related expenses in addition to distribution and merchandising costs, decreased 5% for the three months ended March 31, 2008, as compared to the corresponding prior year period. The decrease is primarily a result of (i) an $18,319,000 decrease from the disposition of Travel Channel and (ii) the effect of the $129,091,000 content impairment charge recorded in 2007 at U.S. networks which decreased content amortization expense by $17,702,000 for the first quarter of 2008 compared to the corresponding prior year period. Partially offsetting the decrease is the impact of International networks continued investment to support additional local feeds for growth in local ad sales, and the unfavorable impact of foreign currency exchange rates. As a result of the foregoing fluctuations, cost of revenue as a percent of revenue decreased to 29% in 2008 from 34% in 2007.

SG&A expenses. SG&A expenses, which include personnel, marketing and other general and administrative expenses, increased by 1% for the three months ended March 31, 2008, as compared to the corresponding prior year period. Such increase is primarily due to U.S. networks continued investment in digital media and an impact related to the expansion of network teams to support the re-branding strategies for Planet Green and Investigation Discovery, offset by the disposition of Travel Channel. Also contributing to the increase is the impact of unfavorable foreign currency exchange rates. As a percent of revenue, SG&A expense was 35% and 39% for the three months ended March 31, 2008 and 2007, respectively.

Expenses arising from long-term incentive plans. Expenses arising from long-term incentive plans are related to Discovery s unit-based, long-term incentive plan, or LTIP (which is also referred to as the DAP), for its employees who meet certain eligibility criteria. Units are awarded to eligible employees and generally vest at a rate of 25% per year. The value of units in the LTIP is indexed to the value of DHC Series A common stock and is calculated using the Black Scholes Model. The change in unit value of LTIP awards outstanding is recorded as compensation expense over the period outstanding. Upon redemption of the LTIP awards, participants receive a cash payment based on the value of the award as described in the terms of the LTIP. In the third quarter of 2007, Discovery amended the LTIP such that the redemption dates occur annually over a 4 year period instead of bi-annually over an 8 year period. Due to the decrease in the DHC Series A common stock price during the three months ended March 31, 2008, a benefit of $40,510,000 was recorded to compensation expense compared to compensation expense of $11,721,000 for the three months ended March 31, 2007. Partially offsetting the benefit for the three months ended March 31, 2008 is $4,653,000 of compensation expense arising from a long-term incentive plan related to one of Discovery s subsidiaries, for which there was no expense in the corresponding prior year period. If the remaining vested LTIP awards at March 31, 2008 were redeemed, the aggregate cash payments by Discovery would be approximately $65,610,000.

Restructuring charges. During the first quarter of 2007, Discovery recorded restructuring charges of $10,999,000 related to a number of organizational and strategic adjustments which consisted mainly of severance due to a reduction in headcount. The purpose of these adjustments was to better align Discovery s organizational structure with the company s new strategic priorities and to respond to continuing changes within the media industry. There was no similar restructuring charge in 2008.

Depreciation and amortization. The increase in depreciation and amortization for the three months ended March 31, 2008 is due to an increase in intangible assets resulting from acquisitions combined with increases in Discovery s depreciable asset base resulting from capital expenditures.

Other Income and Expense

Interest expense. On May 14, 2007, Discovery entered into a new $1.5 billion term loan in connection with the Cox Transaction. The increase in interest expense for the three months ended March 31, 2008 as compared to the corresponding prior year period is primarily a result of the new term loan. The increase is also impacted by Discovery exercising its call rights in January 2007 to acquire mandatorily redeemable securities and reversing $4.5 million of accrued preferred returns. Preferred returns had been recorded as a component of interest expense based on a constant rate of return through the full term.

Unrealized gains from derivative instruments, net. Unrealized gains from derivative transactions relate primarily to Discovery s use of derivative instruments to modify its exposure to interest rate fluctuations on its debt. These instruments include a combination of swaps, caps, collars and other structured instruments. As a result of unrealized mark to market adjustments, Discovery recognized an unrealized loss of $16,095,000 during the three months ended March 31, 2008 and an unrealized gain of $1,065,000 for the three months ended March 31, 2007. The foreign exchange hedging instruments used by Discovery are spot, forward and option contracts. Additionally, Discovery enters into non-designated forward contracts to hedge non-dollar denominated cash flows and foreign currency balances.

Minority interests in consolidated subsidiaries. Minority interests primarily represent the portion of earnings of consolidated entities which are allocable to the minority partners as well as the increases and decreases in the estimated redemption value of mandatorily redeemable interests in subsidiaries which are initially recorded at fair value. The increase for the three months ended March 31, 2008 as compared to the corresponding prior year period is the result of increased profits earned by these consolidated subsidiaries, mainly driven by royalties on the Planet Earth DVD sales.

Other. Other income in 2008 and 2007 relates primarily to Discovery s equity share of earnings of its joint ventures.

Income taxes. Discovery s effective tax rate was 45% for each of the three months ended March 31, 2008 and 2007. Discovery s effective tax rate differed from the federal income tax rate of 35% primarily due to foreign and state taxes.

Loss from discontinued operations. Summarized financial information for the retail stores business included in discontinued operations is as follows (amounts in thousands):

	Three Months Ended March 31, 2007	
Revenue	$	17,628
Loss from discontinued operations before income taxes	$	(13,384)
Loss from discontinued operations, net of tax	$	(8,300)

Net earnings. Discovery s net earnings were $105,218,000 and $43,114,000 for the three months ended March 31, 2008 and 2007, respectively. The changes in net earnings are due to the aforementioned fluctuations in revenue and expense.

Operating Division Results

As noted above, Discovery s operations are divided into three groups: U.S. networks, international networks and commerce and education. Corporate expenses primarily consist of corporate functions, executive management and administrative support services. Corporate expenses are excluded from segment results to enable executive management to evaluate business segment performance based upon decisions made directly by business segment executives. Certain prior period amounts have been reclassified between segments to conform to Discovery s 2008 operating structure.

Discovery Consolidated

	Three Months Ended March 31, 2008	2007
	amounts in thousands	
Revenue		
U.S. networks	$ 490,837	476,762
International networks	266,885	216,647
Commerce and education	24,510	23,131
Corporate and eliminations	12,346	(6,342)
Total revenue	$ 794,578	710,198
Adjusted OIBDA		
U.S. networks	$ 247,492	209,914
International networks	69,307	27,415
Commerce and education	44	(3,485)
Total segment Adjusted OIBDA	$ 316,843	233,844
Corporate expenses and eliminations	(30,911)	(43,416)
Restructuring charges		(10,999)
Benefit (expense) arising from long-term incentive plans	35,857	(11,721)
Depreciation and amortization	(37,720)	(32,433)
Operating income	$ 284,069	135,275

U.S. Networks

	Three Months Ended March 31, 2008	2007
	amounts in thousands	
Revenue		
Advertising	$ 238,792	234,611
Distribution	223,996	225,905
Other	28,049	16,246
Total revenue	490,837	476,762
Cost of revenue	(124,965)	(152,843)
SG&A expenses	(118,380)	(114,005)
Adjusted OIBDA	$ 247,492	209,914

Adjusted OIBDA margin	50%	44%

As noted above, in May 2007, Discovery exchanged its subsidiary holding the Travel Channel, travelchannel.com and approximately $1.3 billion in cash for Cox s interest in Discovery. Accordingly, Discovery s 2008 results of operations do not include Travel Channel. The disposal of Travel Channel does not meet the requirements for discontinued operations presentation. The following table presents U.S. networks results of operations excluding Travel Channel for all periods. This presentation is not in accordance with GAAP. However, Discovery believes this presentation provides a more meaningful comparison of the U.S. networks results of operations and allows the reader to better understand the U.S. networks ongoing operations.

U.S. Networks without Travel Channel

	Three Months Ended March 31,	
	2008	**2007**
	amounts in thousands	
Revenue		
Advertising	$ 238,792	208,972
Distribution	223,996	211,338
Other	28,049	15,544
Total revenue	490,837	435,854
Cost of revenue	(124,965)	(134,524)
SG&A expenses	(118,380)	(101,079)
Adjusted OIBDA	$ 247,492	200,251
Adjusted OIBDA margin	50%	46%

The following discussion excludes the results of Travel Channel for all periods.

Revenue. For the three months ended March 31, 2008, advertising revenue increased 14%, distribution revenue increased 6%, and other revenue increased 80%, as compared to the corresponding prior year period. The increase in advertising revenue at the U.S. networks was primarily due to higher cash sellouts and scatter market rate increases across most networks. Distribution revenue was driven by a 5% increase in average paying subscription units, principally from networks carried on the digital tier, combined with annual contractual rate increases for the fully distributed networks. Contra revenue items included in distribution revenue, such as launch amortization and marketing consideration, totaled $21,328,000 and $21,057,000 for the three months ended March 31, 2008 and 2007, respectively. U.S. networks is currently in negotiations to renew distribution agreements for carriage of its networks involving a substantial portion of its subscribers. A failure to secure a renewal or a renewal on less favorable terms may have a material adverse effect on U.S. networks results of operations and financial position. Other revenue increased primarily from Discovery s representation of the Travel Channel and the acquisition of How Stuff Works in December 2007.

Cost of revenue. For the three months ended March 31, 2008, cost of revenue decreased $9,559,000 or 7%, as compared to the corresponding prior year period, primarily due to a decrease in content amortization expense of $13,863,000. The decrease in content amortization expense was primarily a result of the effect of the $129,091,000 content impairment charge recorded in 2007 which drove a $17,702,000 decrease in content amortization expense for the three months ended March 31, 2008 as compared to the corresponding prior year period. Partially offsetting this reduction is new content amortization expense for programming that began to air during the three months ended March 31, 2008. Starting in the second quarter of 2008, additional content amortization expense is expected from the launch of new programming on most networks and the rebranding of certain networks.

SG&A expenses. SG&A expenses increased $17,301,000 or 17% for the three months ended March 31, 2008, as compared to the corresponding prior year period. The increase is primarily driven by $10,812,000 of expenses related to the continued investment in digital media, including acquisitions from the third and fourth quarters of 2007, and a $3,690,000 impact related to the expansion of network teams to support the re-branding strategies for Planet Green and Investigation Discovery.

Digital Media Business. U.S. networks digital media business revenue was $12,259,000 and $5,756,000 for the three months ended March 31, 2008 and 2007, respectively, and is included in total U.S. networks revenue. Operating expenses for these businesses were $22,241,000 and $8,926,000 for the three months ended March 31, 2008 and 2007, respectively. Discovery expects to continue to invest in digital media due to its recent acquisitions of

PetFinder.com, TreeHugger.com and HowStuffWorks.com, as well as any future organic investments in this arena, with Adjusted OIBDA losses remaining below 5% of Discovery s consolidated Adjusted OIBDA.

International Networks

	Three Months Ended March 31, 2008	2007
	amounts in thousands	
Revenue		
Advertising	$ 65,295	55,067
Distribution	178,687	143,974
Other	22,903	17,606
Total revenue	266,885	216,647
Cost of revenue	(102,049)	(95,345)
SG&A expenses	(95,529)	(93,887)
Adjusted OIBDA	$ 69,307	27,415
Adjusted OIBDA margin	26%	13%

Revenue. Distribution revenue increased 24%, or $34,713,000, for the three months ended March 31, 2008, as compared to the corresponding prior year period, principally comprised of combined revenue growth in Europe, Latin America and Asia of $22,063,000 and a favorable foreign exchange impact of $10,765,000. The increase in revenue resulted from increases in average paying subscription units of 15% primarily due to pay TV subscriber growth in many markets in Europe, combined with contractual rate increases in certain markets. Advertising revenue increased 19%, or $10,228,000, for the three months ended March 31, 2008, primarily due to higher viewership in Europe combined with an increased subscriber base in most markets worldwide and favorable foreign exchange impacts of $3,564,000. Other revenue increased 30%, or $5,297,000, primarily due to growth at Antenna Audio.

Cost of revenue. Cost of revenue increased 7%, or $6,704,000, for the three months ended March 31, 2008, as compared to the corresponding prior year period, driven by an $8,907,000 increase in content amortization expense due to continued investment in original productions and language customization to support additional local feeds for growth in local ad sales. In addition, transponder costs were $2,488,000 higher than the corresponding prior year period due to additional feeds in Europe. These increases were partially offset by reduced spending and efficiencies in production operations of $4,711,000.

SG&A expenses. SG&A expenses increased 2%, or $1,642,000, for the three months ended March 31, 2008, as compared to the corresponding prior year period. The increase is primarily due to an increase in personnel costs of $5,013,000 which includes an unfavorable foreign exchange impact of $2,040,000, offset by decreases in marketing and other general expenses.

For the three months ended March 31, 2008 and 2007, the international networks revenue and Adjusted OIBDA were impacted favorably by changes in the exchange rates of various foreign currencies. In the event the U.S. dollar strengthens against certain foreign currencies in the future, the international networks group s revenue and Adjusted

OIBDA will be negatively impacted. Had there been no impact from changes in exchange rates, international networks would have increased revenue by 15% instead of 23% and operating expenses would have remained relatively flat during the three months ended March 31, 2008, as compared to 2007.

Commerce and Education

	Three Months Ended March 31, 2008	2007
	amounts in thousands	
Revenue	$ 24,510	23,131
Cost of revenue	(12,336)	(12,560)
SG&A expenses	(12,130)	(14,056)
Adjusted OIBDA	$ 44	(3,485)
Adjusted OIBDA margin	0%	(15)%

Revenue. Commerce and education revenue increased 6% for the three months ended March 31, 2008, as compared to the corresponding prior year period, primarily due to an increase in commerce revenue which was driven by continued DVD sales of Planet Earth, along with other popular series such as Human Body, Body Atlas and Dirty Jobs. Education revenue improved slightly as a result of increased streaming and other revenue driven by further penetration of core streaming businesses and new products offset by a decrease in other non-digital services.

Cost of revenue. Cost of revenue was relatively flat for the three months ended March 31, 2008, as compared to the corresponding prior year period, but decreased slightly as a percentage of revenue due to lower content amortization.

SG&A expenses. SG&A expenses decreased $1,926,000 or 14% for the three months ended March 31, 2008, as compared to the corresponding prior year period, primarily due to a legal settlement occurring in the first quarter of 2007.

Corporate

Corporate Adjusted OIBDA losses decreased $12,505,000 or 29% for the three months ended March 31, 2008, as compared to the corresponding prior year period, primarily due to increased ancillary revenue from a joint venture primarily due to an unprecedented level of seasonal sales driven by the success of the Planet Earth programming in 2007, which is not expected to continue at the same level. Corporate costs decreased 2% driven by a reduction in headcount from corporate restructurings which occurred throughout 2007.

Results of Operations Years Ended December 31, 2007, 2006 and 2005

The following discussion of Discovery s results of operations is presented in two parts to assist the reader in better understanding Discovery s operations. The first section is an overall discussion of Discovery s consolidated operating results. The second section includes a more detailed discussion of revenue and expense activity of Discovery s three operating divisions: U.S. networks, international networks, and commerce and education.

Consolidated Results

The combining of predecessor and successor accounting periods is not permitted by GAAP. However, to provide a more meaningful basis for comparing 2007 to 2006 and 2005, Discovery s operating results for the seven

and one-half months ended December 31, 2007 have been combined with the four and one-half months ended May 14, 2007 in the following tables and discussion.

	Years Ended December 31,		
	2007	2006	2005
	amounts in thousands		
Revenue			
Advertising	$ 1,345,033	1,243,500	1,187,823
Distribution	1,477,479	1,434,901	1,198,686
Other	304,821	205,270	157,849
Total revenue	3,127,333	2,883,671	2,544,358
Expenses			
Cost of revenue	(1,172,907)	(1,032,789)	(907,664)
SG&A expenses	(1,148,246)	(1,104,116)	(928,950)
Adjusted OIBDA	806,180	746,766	707,744
Expenses arising from long-term incentive plans	(141,377)	(39,233)	(49,465)
Restructuring charges and asset impairments	(46,598)		
Depreciation and amortization	(130,576)	(122,037)	(112,653)
Gain from disposition of business	134,671		
Operating income	622,300	585,496	545,626
Other Income (Expense)			
Interest expense, net	(248,757)	(194,255)	(184,585)
Unrealized gains (losses) from derivative instruments, net	(8,636)	22,558	22,499
Minority interests in consolidated subsidiaries	(8,266)	(2,451)	(43,696)
Other	7,839	8,527	13,771
Income from continuing operations before income taxes	364,480	419,875	353,615
Income tax expense	(77,466)	(190,381)	(173,427)
Income from continuing operations	287,014	229,494	180,188
Loss from discontinued operations, net of taxes	(65,023)	(22,318)	(20,568)
Net income	$ 221,991	207,176	159,620

Revenue. Discovery s consolidated revenue increased 8% for the year ended December 31, 2007, as compared to 2006, due to increases of 8% in advertising revenue, 48% in other revenue and 3% in distribution revenue. Increases in advertising revenue were primarily due to increased ratings and advertising rates at the U.S. networks, particularly at Discovery Channel and TLC, combined with increased growth in local ad sales in Europe and the impact of favorable exchange rates, partially offset by the disposition of Travel Channel. Program ratings are an indication of consumer acceptance and directly affect Discovery s ability to generate revenue during the airing of its programs. If programs do not achieve sufficient acceptance, the revenue from advertising sales may decline. International networks advertising sales increased due to the continued growth in audience, driven by growth in subscription units. Increased distribution revenue is primarily due to international networks subscriber growth and favorable exchange rates, partially offset by the disposition of Travel Channel and an increase in contra revenue items. Launch incentives increased in 2007 due to the renewal of long-term distribution agreements for certain U.K. networks which resulted in a payment of $195.8 million, most of which is being amortized over a five-year period. Other revenue increased due to (i) the full year impact of the 2006 acquisition of Antenna Audio and (ii) Discovery s new Travel Channel representation arrangement.

In 2006, consolidated revenue increased 13%, as compared to 2005, due to a 20% increase in distribution revenue, a 5% increase in advertising revenue and a 30% increase in other revenue. Increased distribution revenue is primarily due to contractual rate increases, subscriber growth at both U.S. networks and international networks and a reduction in launch support amortization as certain U.S. networks affiliation agreements were extended at no additional cost to Discovery. Distribution revenue also benefited from contractual arrangements in the U.S. networks whereby certain subscribers that were previously covered under free carriage periods with distributors were converted to paying subscribers. Increases in advertising revenue were primarily due to increased advertising rates at the U.S. networks combined with positive developments in international networks advertising sales resulting from continued growth in subscription units. Other revenue increased due to acquisitions in 2006.

Cost of revenue. Cost of revenue, which includes content amortization and other production related expenses in addition to distribution and merchandising costs, increased 14% in 2007, as compared to 2006. Such increase is primarily a result of higher programming costs, including a fourth quarter 2007 impairment charge of $129,091,000 at U.S. networks where new channel leadership has implemented strategic plans to maximize viewership and ratings across most networks. In the fourth quarter of 2007 and in connection with these initiatives, Discovery evaluated its programming portfolio assets and determined that the carrying values of certain programming assets exceeded their estimated fair values which resulted in such impairment charge. Contributing to the increase in cost of revenue is also the impact of several new networks launched in Europe in 2006 and 2007, and the unfavorable impact of foreign currency exchange rates. Partially offsetting these increases is a decrease due to the disposition of Travel Channel. As a result of the foregoing fluctuations, cost of revenue as a percent of revenue increased to 38% in 2007 from 36% in 2006.

During 2006, cost of revenue increased 14%, as compared to 2005, which is consistent with the 2006 percentage increase in revenue. Such increase in cost of revenue is primarily a result of higher programming costs for Discovery s U.S. networks due to continued investment in original productions and high profile specials, combined with increases in Europe associated with the launch of several networks including DMAX. Additionally, cost of revenue in 2005 was reduced by a net aggregate benefit of approximately $11 million related to reductions in estimates for music rights accruals.

SG&A expenses. SG&A expenses, which include personnel, marketing and other general and administrative expenses, increased 4% in 2007, as compared to 2006. Such increase is due to higher personnel costs which resulted from merit, benefit and performance-based compensation increases in U.S. networks and international networks driven by expanding business activity through acquisition, increased international advertising sales coverage, expansion of network teams to support the new brand strategies and digital media. Also contributing to the increase is the impact of unfavorable foreign currency exchange rates. These increases were partially offset by lower marketing expenses at U.S. networks and lower marketing and personnel expenses in the education division as a result of cost cutting measures implemented in 2007. As a percent of revenue, SG&A expense was 37% in 2007, down from 38% in 2006. Although no assurance can be given, Discovery believes that as a result of its ongoing cost containment initiatives, SG&A expense as a percent of revenue will continue to decrease in 2008.

During 2006, SG&A expenses increased 19%, as compared to 2005, due primarily to international infrastructure expansions which increased headcount and office locations to support growth in local advertising sales operations driving increased revenue. Additionally, personnel and marketing costs increased at Discovery s education division, particularly due to its investment in its Cosmeo homework help service. As a result, SG&A as a percent of revenue increased from 37% in 2005 to 38% in 2006.

Expenses arising from long-term incentive plans. Expenses arising from long-term incentive plans are related to Discovery s unit-based, long-term incentive plan, or LTIP (which is also referred to as the DAP), for its employees who meet certain eligibility criteria. Such plan was established in 2005 and replaced the former LTIP Plan under which unit values were tied to Discovery s equity value. Units are awarded to eligible employees and generally vest at a rate of 25% per year. The value of units in the LTIP is indexed to the value of DHC Series A common stock and is calculated using the Black Scholes Model. The change in unit value of LTIP awards outstanding is recorded as compensation expense over the period outstanding. Upon redemption of the LTIP awards, participants receive a cash payment based on the value of the award as described in the terms of the LTIP. In the third quarter of 2007, Discovery amended the LTIP such that the redemption dates occur annually over a 4 year period instead of bi-annually over an 8 year period. Compensation expense aggregated $141,377,000, $39,233,000, and $49,465,000 for the years ended December 31, 2007, 2006, and 2005, respectively. The increase in 2007 is primarily the result of increases in the DHC Series A common stock price offset by a decrease in expense related to the shortened redemption time period under the amended LTIP. The decrease in 2006 is primarily the result of the change in unit value determination for the LTIP units. If the remaining vested LTIP awards at December 31, 2007 were redeemed, the aggregate cash payments by Discovery would be approximately $94,190,000.

Restructuring charges. During 2007, Discovery recorded restructuring charges of $20,424,000 related to a number of organizational and strategic adjustments which consisted mainly of severance due to a reduction in headcount. The purpose of these adjustments was to better align Discovery s organizational structure with the company s new strategic priorities and to respond to continuing changes within the media industry. There was no similar restructuring charge in 2006.

Asset impairment. During the second quarter of 2007, Discovery recorded a $26,174,000 asset impairment charge which represents write-offs of education intangible assets related to its consumer business due to Discovery s decision to decrease its investment in certain product offerings.

Depreciation and amortization. The increase in depreciation and amortization in both 2007 and 2006 is due to an increase in intangible assets resulting from acquisitions combined with increases in Discovery s depreciable asset base resulting from capital expenditures.

Gain from disposition of business. Discovery recognized a gain from disposition of business of $134,671,000 during 2007 in connection with the Cox Transaction and the sale of the Travel Channel.

Other Income and Expense

Interest expense. On May 14, 2007, Discovery entered into a new $1.5 billion term loan in connection with the Cox Transaction. The increase in interest expense for the twelve months ended December 31, 2007 is primarily a result of the new term loan. The increase in interest expense during the year ended December 31, 2006 is primarily due to higher levels of outstanding debt combined with increases in interest rates during the period.

Unrealized gains from derivative instruments, net. Unrealized gains from derivative transactions relate, primarily, to Discovery s use of derivative instruments to modify its exposure to interest rate fluctuations on its debt. These instruments include a combination of swaps, caps, collars and other structured instruments. As a result of unrealized mark to market adjustments, Discovery recognized an unrealized loss of $8,617,000 during the year ended December 31, 2007 and unrealized gains of $10,352,000 and $29,109,000 during the years ended December 31, 2006 and 2005, respectively. The foreign exchange hedging instruments used by Discovery are spot, forward and option contracts. Additionally, Discovery enters into non-designated forward contracts to hedge non-dollar denominated cash flows and foreign currency balances.

Minority interests in consolidated subsidiaries. Minority interests primarily represent increases and decreases in the estimated redemption value of mandatorily redeemable interests in subsidiaries which are initially recorded at fair value, as well as the portion of earnings of consolidated entities which are allocable to the minority partners.

Other. Other income in 2007, 2006 and 2005 relates primarily to Discovery s equity share of earnings of its joint ventures.

Income taxes. Discovery s effective tax rate was 21%, 45% and 49% for 2007, 2006 and 2005, respectively. Discovery s effective tax rate differed from the federal income tax rate of 35% primarily due to the tax-free treatment of the disposition of the Travel Channel and the corresponding reversal of deferred tax liabilities in 2007 and due to foreign and state taxes in 2006 and 2005.

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Loss from discontinued operations. Summarized financial information for the retail stores business included in discontinued operations is as follows:

	Years Ended December 31,		
	2007	**2006**	**2005**
	amounts in thousands		
Revenue	$ 57,853	129,317	127,396
Loss from discontinued operations before income taxes	$ (99,427)	(35,911)	(31,652)
Loss from discontinued operations, net of tax	$ (65,023)	(22,318)	(20,568)

The 2007 loss from discontinued operations includes $39,904,000 in restructuring costs and $28,264,000 in asset impairment charges, along with normal business operations.

Net earnings. Discovery s net earnings were $221,991,000, $207,176,000, and $159,620,000, for 2007, 2006 and 2005, respectively. The changes in net earnings are due to the aforementioned fluctuations in revenue and expense.

Operating Division Results

As noted above, Discovery s operations are divided into three groups: U.S. networks, international networks and commerce and education. Corporate expenses primarily consist of corporate functions, executive management and administrative support services. Corporate expenses are excluded from segment results to enable executive management to evaluate business segment performance based upon decisions made directly by business segment executives. Certain prior period amounts have been reclassified between segments to conform to Discovery s 2007 operating structure.

Discovery Consolidated

	Years Ended December 31,		
	2007	**2006**	**2005**
	amounts in thousands		
Revenue			
U.S. networks	$ 1,972,321	1,893,808	1,743,358
International networks	1,033,449	911,445	738,094
Commerce and education	149,805	107,285	88,576
Corporate and eliminations	(28,242)	(28,867)	(25,670)
Total revenue	$ 3,127,333	2,883,671	2,544,358
Adjusted OIBDA			
U.S. networks	$ 774,268	828,443	745,980
International networks	210,090	153,127	128,837
Commerce and education	1,676	(72,599)	(25,285)
Total segment Adjusted OIBDA	$ 986,034	908,971	849,532

Corporate expenses and eliminations	(179,854)	(162,205)	(141,788)
Restructuring charges and asset impairments	(46,598)		
Expenses arising from long-term incentive plans	(141,377)	(39,233)	(49,465)
Depreciation and amortization	(130,576)	(122,037)	(112,653)
Gain from disposition of business	134,671		
Operating income	$ 622,300	585,496	545,626

U.S. Networks

	Years Ended December 31, 2007	2006	2005
	amounts in thousands		
Revenue			
Advertising	$ 1,014,541	965,648	944,770
Distribution	862,542	865,613	736,713
Other	95,238	62,547	61,875
Total revenue	1,972,321	1,893,808	1,743,358
Cost of revenue	(737,892)	(635,874)	(587,370)
SG&A expenses	(460,161)	(429,491)	(410,008)
Adjusted OIBDA	$ 774,268	828,443	745,980
Adjusted OIBDA margin	39.3%	43.7%	42.8%

As noted above, in May 2007, Discovery exchanged its subsidiary holding the Travel Channel, travelchannel.com and approximately $1.3 billion in cash for Cox s interest in Discovery. Accordingly, Discovery s 2007 results of operations do not include Travel Channel for the full year. The disposal of Travel Channel does not meet the requirements for discontinued operations presentation. The following table presents U.S. networks results of operations excluding Travel Channel for all periods. This presentation is not in accordance with GAAP. However, Discovery believes this presentation provides a more meaningful comparison of the U.S. networks results of operations and allows the reader to better understand the U.S. networks ongoing operations.

U.S. Networks without Travel Channel

	Years Ended December 31, 2007	2006	2005
	amounts in thousands		
Revenue			
Advertising	$ 974,552	863,690	852,075
Distribution	840,262	813,342	693,339
Other	94,010	58,876	58,197
Total revenue	1,908,824	1,735,908	1,603,611
Cost of revenue	(710,052)	(560,241)	(523,426)
SG&A expenses	(439,501)	(383,064)	(372,322)
Adjusted OIBDA	$ 759,271	792,603	707,863
Adjusted OIBDA margin	39.8%	45.7%	44.1%

The following discussion excludes the results of Travel Channel for all periods.

Revenue. In 2007, advertising revenue increased 13%, distribution revenue increased 3%, and other revenue increased 60%, as compared to 2006. The increase in advertising revenue at the U.S. networks was primarily due to improved advertising sell-out rates, better unit pricing and higher audience delivery on most channels, notably the Discovery Channel and TLC. The advertising market was strong and scatter pricing was well above upfront pricing. Primetime sell-outs on the major networks increased by an average of seven percentage points. Primetime ratings increased on Discovery Channel due to original content such as *Planet Earth*, *Deadliest Catch, Man vs. Wild, Dirty Jobs* and *Mythbusters*. TLC Primetime ratings increased due to original content such as *Little People Big World, What Not to Wear* and *L.A. Ink.* Advertising revenue growth on certain networks carried on the digital tier was 36% led by The Science Channel and Discovery Times. Distribution revenue was driven by a 6% increase in average paying subscription units, principally from networks carried on the digital tier, partially offset by an increase in contra-revenue items. Contra-revenue items included in distribution revenue, such as launch amortization and marketing consideration, increased from $86,399,000 in 2006 to $95,213,000 in 2007. Other revenue primarily increased as a result of increased revenue from Discovery s representation of the Travel Channel.

In 2006, distribution revenue increased 17% and advertising revenue increased 1%, as compared to 2005. Distribution revenue was driven by a 13% increase in average paying subscription units, principally from networks carried on the digital tier, combined with contractual rate increases, partially offset by an increase in contra-revenue items from $75,705,000 in 2005 to $86,399,000 in 2006. Advertising was flat although ratings were higher compared to 2005. During the fourth quarter of 2006, the advertising sales market began to reflect the ratings turnaround, and advertising revenue in the fourth quarter increased 14%, as compared to the fourth quarter of 2005.

Cost of revenue. In 2007, cost of revenue increased 27%, as compared to 2006, primarily due to a $122,099,000 increase in content amortization expense, including an impairment charge of $129,091,000. In 2007, following several changes in channel leadership, Discovery undertook strategic reviews to maximize viewership and ratings across most networks. As a result, programming at the Discovery Channel, TLC and Animal Planet is being re-positioned to better align content with these channel brands. In addition, certain other networks are being re-branded, including the transition of the Discovery Times channel to Investigation Discovery, the Discovery Home channel to Planet Green, and the recently announced creation of OWN: The Oprah Winfrey Network, a joint venture between Discovery and Harpo Productions, Inc. on what is currently the Discovery Health channel. In the fourth quarter of 2007 and in connection with these initiatives, Discovery evaluated its programming portfolio assets and determined that the carrying values of certain programming assets exceeded their estimated fair values which resulted in the aforementioned impairment charge. The program impairment was primarily related to content that was capitalized in 2006 and 2007 and would have been amortized over the next 3 years. Excluding the 2007 impairment charge and accelerated amortization of certain programs in 2007 and 2006, content amortization increased due to continued investment in original programs that are aligned with the future strategy and from 2006 acquisitions.

Cost of revenue increased 7% in 2006, as compared to 2005, primarily as a result of a $51,222,000 increase in content amortization expense due to continued investment in original productions on the widely distributed channels and accelerated amortization on certain programs. These increases were partially offset by a decrease of $9,064,000 in transponder and uplink costs due to cost savings associated with Discovery s launch of its broadcast facility in 2005.

SG&A expenses. SG&A expenses increased 15% in 2007, as compared to 2006. The increase is due to personnel cost increases of $35,410,000 driven by merit, benefit and performance-based compensation increases, along with the impact of the expansion of its network teams to support the new brand strategies and continued investment in digital media. Also contributing to the increase were higher research expenses of $11,157,000 resulting from contractual increases for ratings research and additional fees associated with providing commercial minute ratings. These increases were partially offset by a decrease in marketing expense of $7,636,000 which coincided with a re-evaluation of the related programming strategies.

The 2006 3% increase in SG&A expenses is primarily due to a 12% or $13,581,000 increase in personnel expense resulting from compensation and benefit increases.

Digital Media Business. Revenue for the U.S. networks digital media businesses totaled approximately $31 million in 2007 and $19 million in 2006. Operating expenses for these businesses were $43 million and $28 million for 2007 and 2006, respectively. Discovery expects these amounts to increase in the future due to its recent acquisitions of PetFinder.com, TreeHugger.com and HowStuffWorks.com, as well as any future organic investments in this arena, with Adjusted OIBDA losses remaining below 5% of Discovery s consolidated Adjusted OIBDA.

International Networks

	Years Ended December 31, 2007	2006	2005
	amounts in thousands		
Revenue			
Advertising	$ 330,300	277,559	242,849
Distribution	614,937	569,288	462,049
Other	88,212	64,598	33,196
Total revenue	1,033,449	911,445	738,094
Cost of revenue	(408,957)	(390,783)	(315,539)
SG&A expenses	(414,402)	(367,535)	(293,718)
Adjusted OIBDA	$ 210,090	153,127	128,837
Adjusted OIBDA margin	20.3%	16.8%	17.5%

Revenue. In 2007, advertising revenue increased 19%, as compared to 2006, due primarily to higher viewership in Europe and Latin America combined with an increased subscriber base in most markets worldwide, favorable exchange rate impacts and a full year of activity related to DMAX. These increases were partially offset by a decline in advertising revenue in the U.K. which was driven by lower ratings for Discovery Channel resulting from increased competition and a continuing shift in viewing habits due to channel placement on the Electronic Programming Guide which lists scheduled programs on each channel. Distribution revenue increased 8% in 2007 principally comprised of combined revenue growth in Europe, Latin America and Asia of $71,927,000 and favorable foreign exchange impact of $29,402,000, primarily in the U.K. and Europe, partially offset by a $55,684,000 revenue decline in the U.K. The net increase in revenue resulted from an overall increase in average paying subscription units of 13% primarily due to pay TV subscriber growth in many markets in Europe and Latin America combined with contractual rate increases in certain markets, partially offset by an increase in launch amortization. In January 2007 and in connection with the settlement of terms under a pre-existing distribution agreement, Discovery completed negotiations for the renewal of long-term distribution agreements for certain U.K. networks and paid a distributor $195.8 million. Most of the payment was attributed to the renewal period and is being amortized over a five year term. As a result, launch amortization at the international networks increased from $6,474,000 in 2006 to $44,291,000 in 2007. Other revenue increased $23,614,000 primarily due to the full year impact of Antenna Audio, which was acquired in March 2006.

In 2006, distribution revenue increased 23%, as compared to 2005, primarily due to combined revenue growth in Europe and Latin America of $79,235,000 resulting from a 27% increase in average paying subscription units, primarily on networks with lower rates, in those markets. Subscriber growth in those markets was driven by increased penetration and distribution along with the full year impact of new channel launches in Italy, France and Germany. Favorable foreign exchange impacts of $6,533,000, primarily in Europe and Latin America, also contributed to the increase in distribution revenue. Advertising revenue increased 14% in 2006 primarily due to higher viewership in Europe and Latin America combined with an increased subscriber base in most markets worldwide. Other revenue increased 95% due primarily to the inclusion of $32,371,000 in revenue from the acquisition of Antenna Audio in April 2006.

Cost of revenue. In 2007, cost of revenue increased 5%, as compared to 2006, primarily due to the full year impact of $15,613,000 from DMAX and Antenna Audio, which were acquired in 2006.

In 2006, cost of revenue increased 24%, as compared to 2005, primarily from a $27,434,000 increase in content amortization expense. The amortization expense increase is associated with additional programming to support the launch of several lifestyle-focused networks including $10,142,000 related to DMAX and Antenna Audio. Other increases in cost of revenue related to DMAX and Antenna Audio aggregated $23,394,000.

SG&A expenses. SG&A expenses increased 13% during 2007, as compared to 2006. The increase is primarily due to a $43,507,000 increase in personnel expense, of which $19,428,000 resulted from a full year of activity related to the DMAX and Antenna Audio acquisitions in 2006. Personnel costs in Europe increased $18,610,000 due to infrastructure expansions of sales personnel allowing for increased targeting of advertising consistent with geographic demand to support revenue growth.

In 2006, SG&A expenses increased 25%, as compared to 2005, primarily due to a $46,568,000 or 44% increase in personnel expense, resulting from infrastructure expansions in Europe to support revenue growth combined with the acquisition of Antenna Audio. Marketing expense increased $6,087,000 or 7% due to marketing campaigns in Europe and Asia for the launch of new channels. General and administrative expenses increased $21,161,000 or 20% primarily due to the inclusion of Antenna Audio coupled with the unfavorable effect of foreign currency exchange rates.

During the years ended December 31, 2007 and 2006, the international networks revenue and Adjusted OIBDA were impacted favorably by changes in the exchange rates of various foreign currencies. In the event the U.S. dollar strengthens against certain foreign currencies in the future, the international networks group s revenue and Adjusted OIBDA will be negatively impacted. Had there been no impact from changes in exchange rates, international networks would have increased revenue and operating expenses 8% and 4%, respectively, during the year ended December 31, 2007, as compared to 2006, and 22% and 23%, respectively, during the year ended December 31, 2006, as compared to 2005.

Commerce and Education

	Years Ended December 31,		
	2007	2006	2005
	amounts in thousands		
Revenue	$ 149,805	107,285	88,576
Cost of revenue	(90,976)	(79,460)	(59,567)
SG&A expenses	(57,153)	(100,424)	(54,294)
Adjusted OIBDA	$ 1,676	(72,599)	(25,285)
Adjusted OIBDA margin	1.1%	(67.7)%	(28.5)%

Revenue. In 2007, commerce and education revenue increased 40%, as compared to 2006, due to a $17,595,000 increase in education revenue as a result of an increase in subscribers and improved pricing for Discovery s direct-to-school education distribution platform, and a $24,925,000 increase in commerce revenue which was driven by an increase in sales of Planet Earth DVDs following the series premiere in March 2007.

In 2006, Commerce and education revenue increased 21%, as compared to 2005, due to a $10,578,000 increase in revenue related to the education business as a result of a 30% increase in average paying school subscribers and the impact of acquisitions in 2006. Also contributing to the increase was an $8,131,000 increase in revenue related to the commerce business mainly driven by increased ecommerce sales.

Cost of revenue. During the fourth quarter of 2006, Discovery made a number of organizational and strategic adjustments to its education business to focus resources on the company s direct-to-school distribution platform, *unitedstreaming,* as well as the division s other premium direct-to-school subscription services. In 2007, cost of revenue increased 14%, or $11,516,000, as compared to 2006, primarily due to increased content amortization related to an impairment charge of $9,976,000 as a result of the re-focus of the education business.

In 2006, cost of revenue increased 33%, or $19,893,000, as compared to 2005, primarily as a result of a $14,127,000 investment in education content to accommodate the growth of the education business.

SG&A expenses. In 2007, SG&A expenses decreased 43%, as compared to 2006, primarily due to a $10,671,000 reduction in personnel expense as a result of business restructuring in commerce and education, combined with a $26,649,000 reduction in marketing expense as Discovery re-focused the direction of the education business. Included in SG&A are approximately $5 million in costs incurred during the fourth quarter of 2007 to transition the back-office and distribution services of the remaining commerce business to Discovery s headquarters and/or third-party service providers.

In 2006, SG&A expenses increased 85%, as compared to 2005. Expenses in the education division increased as a result of (i) a 91%, or $18,056,000, increase in personnel expense, resulting primarily from a full year of salary expense for employees hired in 2005 and (ii) a 174%, or $19,142,000, increase in marketing expense resulting primarily from Discovery s investment in Cosmeo, a new consumer homework help service.

Corporate

Corporate Adjusted OIBDA losses increased 11%, or $17,650,000, in 2007, as compared to 2006, primarily due to costs incurred as a result of supporting Discovery s shareholder transactions combined with increases in performance-based compensation resulting from strong fiscal year financial performance and the impact of changes in executive management including related hiring costs. The 2006 increase of 14% or $20,418,000 was driven primarily by merit, benefit and performance-based compensation increases.

Liquidity and Capital Resources

Discovery s principal sources of liquidity are cash flows from operations and borrowings under its credit facility, and its principal uses of cash are for capital expenditures, acquisitions, debt service requirements, and other obligations. Discovery anticipates that its cash flows from operations, existing cash, cash equivalents and borrowing capacity under its revolving credit facility are sufficient to meet its anticipated cash requirements for at least the next 12 months.

Discovery currently has fixed the interest rate on the majority of its outstanding debt. The anticipated interest payments, together with the scheduled principal payments, due over the next year are within the available capacity on Discovery s committed facilities. Discovery does not expect to need to arrange for any new credit facilities or debt agreements to meet its existing obligations or operating requirements for at least the next 12 months, which will minimize Discovery s exposure to the current adverse conditions in the economy and the credit markets. Also, Discovery s current performance on the leverage and other financial maintenance tests is at levels within the established thresholds of the debt agreements indicating some ability to absorb lower than expected operating results and still remain within the covenant limits.

If Discovery were to experience a significant decline in operating performance, or have to meet an unanticipated need for additional liquidity beyond its available commitments, there is no certainty that Discovery would be able to access the needed liquidity. While Discovery has established relationships with U.S. and international banks and investors which continue to participate in its various credit agreements, the current tightening in the credit markets may cause some lenders to have to reduce or withdraw their commitments if Discovery were to open its agreements to negotiate a refinancing or an increase in its total commitments. Covenants in existing debt agreements may constrain Discovery s capacity for additional debt or there may be significant increases in costs to refinance existing debt to access additional liquidity. As a public company, Discovery may have access to other sources of capital such as the public bond and equity markets. However, access to sufficient liquidity in other markets in which Discovery has not previously issued is not assured given Discovery s substantial debt outstanding and the aforementioned tighter conditions in the credit markets overall.

During the three months ended March 31, 2008, Discovery s primary uses of cash were principal payments under its bank facilities and senior notes totaling $190,500,000, capital expenditures of $13,955,000, and payments under its LTIP of $12,411,000. Discovery funded these investing and financing activities with cash from operations of $68,951,000 and bank borrowings of $165,500,000.

During the year ended December 31, 2007, Discovery s primary uses of cash were the redemption of Cox s equity interests ($1,284,544,000), acquisitions ($306,094,000, net of cash acquired) and capital expenditures ($80,553,000). Discovery funded these investing and financing activities with cash from operations of $242,072,000 and bank borrowings of $1,497,639,000.

Discovery s various debt facilities include two term loans, two revolving loan facilities and various senior notes payable. The second term loan was entered into on May 14, 2007 for $1.5 billion in connection with the Cox

Transaction. Total commitments of these facilities were $5,445,000,000 at March 31, 2008. Debt outstanding on these facilities aggregated $4,078,501,000 at March 31, 2008, providing excess debt availability of $1,366,499,000. Discovery s ability to borrow the unused capacity is dependent on its continuing compliance with its covenants at the time of, and after giving effect to, a requested borrowing.

Discovery s $1.5 billion term loan is secured by the assets of Discovery, excluding assets held by its subsidiaries. The remaining term loan, revolving loans and senior notes are unsecured. The debt facilities contain covenants that require the respective borrowers to meet certain financial ratios and place restrictions on the payment of dividends, sale of assets, additional borrowings, mergers, and purchases of capital stock, assets and investments. Discovery has indicated that it was in compliance with all debt covenants as of March 31, 2008.

Discovery s outstanding notes payable and long-term debt at March 31, 2008 consists of the following (amounts in thousands):

Term Loan B, due quarterly through May 2014	$ 1,488,750
Term Loan A, due quarterly December 2008 to October 2010	1,000,000
£10,000 Uncommitted Facility, due August 2008	2,473
260,000.0 Revolving Loan, due April 2009	94,278
7.45% Senior Notes, semi annual interest, due September 2009	55,000
Revolving Loan, due October 2010	503,000
8.37% Senior Notes, semi annual interest, due March 2011	220,000
8.13% Senior Notes, semi annual interest, due September 2012	235,000
Senior Notes, semi annual interest, due December 2012	90,000
6.01% Senior Notes, semi annual interest, due December 2015	390,000
Other	34,549
Total debt	$ 4,113,050

In 2008, including amounts discussed above, Discovery expects its uses of cash to be approximately $266,285,000 for debt repayments, $90,000,000 for capital expenditures and $260,000,000 for interest expense. Discovery will also be required to make payments under its LTIP Plan. However, amounts expensed and payable under the LTIP are dependent on future annual calculations of unit values which are affected primarily by changes in DHC s stock price, annual grants of additional units, redemptions of existing units, and changes to the plan. If the remaining vested LTIP awards at March 31, 2008 were redeemed, the aggregate cash payments by Discovery would be approximately $65,610,000. Discovery believes that its cash flow from operations and borrowings available under its credit facilities will be sufficient to fund its cash requirements, including LTIP obligations.

The Company s interest expense is exposed to movements in short-term interest rates. Derivative instruments, including both fixed to variable and variable to fixed interest rate instruments, are used to modify this exposure. The variable to fixed interest rate instruments have a notional principal amount of $2.27 billion and have a weighted average interest rate of 4.68% against 3 month LIBOR at December 31, 2007. The fixed to variable interest rate agreements have a notional principal amount of $225.0 million and have a weighted average interest rate of 9.65% against fixed rate private placement debt at December 31, 2007. At December 31, 2007, the Company held an unexercised interest rate swap put with a notional amount of $25.0 million at a fixed rate of 5.44%.

Discovery s access to capital markets can be affected by factors outside of its control. In addition, its cost to borrow is impacted by market conditions and its financial performance as measured by certain credit metrics defined it its credit agreements, including interest coverage and leverage ratios.

Contractual obligations. Discovery has agreements covering leases of satellite transponders, facilities and equipment. These agreements expire at various dates through 2020. Discovery is obligated to license programming under agreements with content suppliers that expire over various dates. Discovery also has other contractual commitments arising in the ordinary course of business.

A summary of all of the expected payments for these commitments as well as future principal payments under the current debt arrangements and minimum payments under capital leases at December 31, 2007 is as follows:

	Payments Due by Period(3)				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt	$ 4,102,959	266,285	1,454,174	575,000	1,807,500
Interest payments(1)	1,245,596	261,424	449,275	335,673	199,224
Capital leases	44,107	9,042	15,828	9,202	10,035
Operating leases	415,384	82,357	122,509	76,777	133,741
Program license fees	558,183	325,509	110,362	80,843	41,469
Launch incentives	12,572	4,492	8,080		
Other(2)	292,339	106,320	157,619	28,000	400
Total	$ 6,671,140	1,055,429	2,317,847	1,105,495	2,192,369

(1) Amounts (i) are based on our outstanding debt at December 31, 2007, (ii) assume the interest rates on our floating rate debt remain constant at the December 31, 2007 rates and (iii) assume that our existing debt is repaid at maturity.

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

(3) Table does not include certain long-term obligations reflected in the Discovery consolidated balance sheet as the timing of the payments cannot be predicted or the amounts will not be settled in cash. The most significant of these obligations is the $141.7 million accrued under Discovery s LTIP plans. In addition, amounts accrued in the Discovery consolidated balance sheet related to derivative financial instruments are not included in the table as such amounts may not be settled in cash or the timing of the payments cannot be predicted.

Discovery is subject to a contractual agreement that may require Discovery to acquire the minority interest of certain of its subsidiaries. The amount and timing of such payments are not currently known. Discovery has recorded an estimated liability as of December 31, 2007 for this redemption right.

Critical Accounting Policies and Estimates

The preparation of Discovery s financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. On an ongoing basis, Discovery evaluates estimates, which are based on historical experience and on various other assumptions believed reasonable under the circumstances. The result of these evaluations forms the basis for making judgments about the carrying values of assets and liabilities and the reported amount of expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions. Critical accounting policies impact the presentation of Discovery s financial condition and results of operations and require significant judgment and estimates. An appreciation of Discovery s critical accounting policies facilitates an understanding of its financial results. Unless otherwise noted, Discovery applied critical accounting policies and estimates methods consistently in all material respects and for all periods presented. For further information regarding these critical accounting policies and estimates, please see the Notes to the Discovery consolidated financial statements.

Revenue

Discovery derives revenue from (1) advertising aired on Discovery s networks and websites, (2) distribution revenue from cable system, satellite operators and other distributors, and (3) other, which is largely e-commerce and educational sales.

Advertising. Discovery records advertising revenue net of agency commissions and audience deficiency liabilities in the period advertising spots are broadcast. A substantial portion of the advertising sold in the United States includes guaranteed levels of audience that either the program or the advertisement will reach. Deferred revenue is appropriately recorded and adjusted as the guaranteed audience levels are achieved. Audience guarantees are initially developed by Discovery s internal research group and actual audience and delivery information is provided by third party ratings services. In certain instances, the third party ratings information is not received until after the close of the reporting period. In these cases, reported advertising revenue and related deferred revenue is based on Discovery s estimates for any under-delivery of contracted advertising ratings based on the most current data available from the third party ratings service. Differences between the estimated under-delivery and the actual under-delivery have historically been insignificant.

Certain of Discovery s advertising arrangements include deliverables in addition to commercial time, such as the advertiser s product integration into the programming, customized vignettes, and billboards. These contracts that include other deliverables are evaluated as multiple element revenue arrangements under EITF 00-21, *Revenue Arrangements with Multiple Deliverables.* Discovery believes that these other deliverables do not have a material impact on the pattern of revenue recognition since they are not separately priced or sold on a stand-alone basis, there is no objective and reliable evidence of fair value of these other elements, there is no right of return associated with these other elements, and they are generally delivered over the same period as the commercials that have been purchased. However, should any of these factors change in the future, the value of these other deliverables could impact the timing of the revenue recognition.

Distribution. Distributors generally pay a per-subscriber fee for the right to distribute Discovery programming under the terms of long-term distribution contracts (distribution revenue). Distribution revenue is reported net of incentive costs or other consideration, if any, offered to system operators in exchange for long-term distribution contracts. Discovery recognizes distribution revenue over the term of the contracts based on contracted monthly license fee provisions and reported subscriber levels. Network incentives have historically included upfront cash incentives referred to as launch support in connection with the launch of a network by the distributor within certain time frames. Any such amounts are capitalized as assets upon launch of Discovery programming by the distributor and are amortized on a straightline basis as a reduction of revenue over the terms of the contracts. In instances where the distribution agreement is extended prior to the expiration of the original term, Discovery evaluates the economics of the extended term and, if it is determined that the deferred launch asset continues to benefit Discovery over the extended term, then Discovery will adjust the launch amortization period accordingly. Other incentives are recognized as a reduction of revenue as incurred.

The amount of distribution revenue due to Discovery is reported by distributors based on actual subscriber levels. Such information is generally not received until after the close of the reporting period. Therefore, reported distribution revenue is based upon Discovery s estimates of the number of subscribers receiving Discovery programming for the month, plus an adjustment for the prior month estimate. Discovery s subscriber estimates are based on the most recent remittance or confirmation of subscribers received from the distributor. Adjustments between Discovery s estimates and the actual amounts are generally positive and have not been material.

Commerce and Education. Commerce revenue is recognized upon product shipment, net of estimated returns, which are not material to Discovery s consolidated financial statements. Educational service sales are generally recognized ratably over the term of the agreement.

Content rights

Cost incurred in the direct production, co-production or licensing of content rights are capitalized and stated at the lower of unamortized cost, fair value, or net realizable value. In accordance with SOP 00-2, *Accounting by Producers* *or Distributors of Films,* Discovery amortizes its content assets based upon the ratio of current revenue to total estimated revenue (ultimate revenue). To determine this ratio, Discovery analyzes historical and projected usage for similar programming and applies such usage factors to projected revenue by network adjusted for any future significant programming strategy changes.

For U.S. networks, the result of this policy is an accelerated amortization pattern for the established networks (Discovery Channel, TLC, and Animal Planet) over a period of no more than four years. The accelerated amortization pattern results in the amortization of approximately 50% of the program cost during the first year. Topical or current events programming is amortized over shorter periods based on the nature of the programming and may be expensed upon its initial airing. The less mature, domestic networks utilize a four year useful life and international networks utilize a three to four year useful life. For these networks, with programming investment levels lower than the established networks and higher reuse of programming, straight-line amortization is considered a reasonable estimate of the use of content consistent with the pace of earning ultimate revenue.

Ultimate revenue assessments include advertising and affiliate revenue streams. Ancillary revenue is considered immaterial to the assessment. Changes in management s assumptions, such as changes in expected use, could significantly alter Discovery s estimates for amortization. Amortization is approximately $814 million for the year ended December 31, 2007 and the unamortized programming balance at December 31, 2007 is $1,127 million.

Programming that Discovery expects to alter planned use by reduction or removal from a network because of changes in network strategy, is written down to its net realizable value based on adjusted ultimate revenues when identified. On a periodic basis, management evaluates the net realizable value of content in conjunction with its strategic review of the business. Changes in management s assumptions, such as changes in expected use, could significantly alter Discovery s estimates for write-offs. During the fourth quarter of 2007, Discovery implemented significant changes in brand strategies for several of the U.S. networks and the education division. The result was content impairment, a component of content amortization expense, of $129 million for U.S. networks and $10 million for the education division. Consolidated content impairment, including accelerated amortization of certain programs, for Discovery is $174 million, $40 million, and $17 million in 2007, 2006, and 2005, respectively.

Valuation of goodwill

Discovery assesses the impairment of goodwill annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. For purposes of performing the impairment test for goodwill, reporting units are Discovery, TLC, Animal Planet, all other U.S. networks, each international region, Antenna Audio, the commerce division, and the education division. Factors which could trigger an impairment review include significant underperformance to historical or projected future operating results, substantial changes in strategy or the manner in which assets are used, and significant negative industry or economic trends. To determine the fair value of reporting units, Discovery generally uses market data, appraised values and discounted cash flow analyses. The use of a discounted cash flow analysis requires significant judgment to estimate the future cash flow derived from the asset or business and the period of time over which those cash flows will occur and to determine an appropriate discount rate. Changes in estimates and projections or changes in established reporting units could materially affect the determination of fair value for each reporting unit. Management utilized an 11% and 13% discount factor for the U.S. networks and international networks, respectively.

Expenses arising from long-term incentive plans

Expenses arising from long-term incentive plans are related to Discovery s unit-based, long-term incentive plan, (LTIP), for its employees who meet certain eligibility criteria, which for 2007 were outstanding under the Discovery Appreciation Plan (DAP). Units are awarded to eligible employees and vest at a rate of 25% per year. Discovery accounts for the LTIP in accordance with FAS 133, *Accounting for Derivative Financial Instruments* and EITF 02-08, *Accounting for Options Granted to Employees in Unrestricted, Publicly Traded Shares of an Unrelated Entity,* as the value of units in the LTIP is indexed to the value of DHC Series A common stock. Upon redemption of the LTIP awards, participants receive a cash payment based on the difference between the market price of DHC Series A common stock on the vesting date and the market price on the date of grant.

The value of units in the LTIP is calculated using the Black-Scholes model each reporting period, and the change in unit value of LTIP awards outstanding is recorded as compensation expense over the period outstanding. Discovery has elected to attribute expense for the units in accordance with FAS 123R. Alternative attribution models could impact the timing of compensation expense. Discovery uses volatility of DHC common stock if available. However, if the term of the units is in excess of the period DHC common stock has been outstanding, Discovery uses a market proxy. Different assumptions regarding a reasonable market proxy could result in different market valuations. However the most significant factor in determining the unit value is the price of DHC common stock.

Mandatorily redeemable equity

Mandatorily redeemable interests in subsidiaries are initially recorded at fair value. For those instruments with an estimated redemption value, Discovery accretes or decretes to the estimated redemption value ratably over the period to the redemption date. Discovery determines fair values using discounted cash flow analyses against the related subsidiary s estimated 5 year strategic plan performance. The use of a discounted cash flow analysis requires significant judgment to estimate the future cash flows derived from the entity, the expected period of time over which those cash flows will occur and an appropriate discount rate. Changes in such estimates could affect the amounts estimated for fair value and resulting redemption values. While Discovery believes its assumptions are reasonable based on the best information available, if different assumptions, interpretations of contractual agreements, or negotiated settlements were made, the amount allocated to redeemable interests could differ substantially from the reported amounts. Cash receipts and payments for the sale or purchase of mandatorily redeemable interests in subsidiaries are included as a component of investing cash flows.

Income Taxes

Discovery is a Delaware limited liability company with two members, and has elected to be classified as a corporation for federal income tax purposes. Discovery accounts for income taxes using the asset and liability method in accordance with FAS 109, *Accounting for Income Taxes*. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Discovery provides a valuation allowance against deferred tax assets if, based upon the weight of available evidence, Discovery believes it is more likely than not that some or all of the deferred tax assets will not be realized. Discovery considers ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. In the event Discovery determines the deferred tax asset realizable would be greater or less than the net amount recorded, an adjustment would be made to the tax provision in that period.

Discovery accounts for uncertain tax positions in accordance with FIN 48, *An Interpretation for Uncertainty in Income Taxes an interpretation of FASB Statement 109, Accounting for Income Taxes.* FIN 48 requires the evaluation of using a two-step process. The first step is recognition: Discovery determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, Discovery assumes that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (Statement 141R). Statement 141R replaces Statement of Financial Accounting Standards No. 141, *Business Combinations* (Statement 141), although it retains the fundamental requirement in Statement 141 that the acquisition method of accounting be used for all business combinations. Statement 141R establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree, (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase and (c) determines the business combination disclosure information. Statement 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the Company s 2009 fiscal year.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (Statement 160). Statement 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, commonly referred to as minority interest. Among other matters, Statement 160 requires (a) the noncontrolling interest be reported within equity in the balance sheet and (b) the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly presented in the statement of income. Statement 160 is effective for fiscal years beginning after December 15, 2008. Statement 160 is to be applied prospectively, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. Discovery is currently evaluating the impact of Statement 160 on its financial statements.

Quantitative and Qualitative Disclosures about Market Risk

Discovery s earnings and cash flow are exposed to market risk and can be affected by, among other things, economic conditions, interest rate changes, and foreign currency fluctuations. Discovery has established policies, procedures and internal processes governing its management of market risks and the use of financial instruments to manage its exposure to such risks. Discovery uses derivative financial instruments to modify its exposure to market risks from changes in interest rates and foreign exchange rates. Discovery does not hold or enter into financial instruments for speculative trading purposes.

The nature and amount of Discovery s long-term debt are expected to vary as a result of future requirements, market conditions and other factors. Discovery s interest expense is exposed to movements in short-term interest rates. Derivative instruments, including both fixed to variable and variable to fixed interest rate instruments, are used to modify this exposure. These instruments include swaps and swaptions to modify interest rate exposure. The variable to fixed interest rate instruments had a notional principal amount of $2,270.0 million and $1,025.0 million and had a weighted average interest rate of 4.68% and 5.09% at December 31, 2007 and 2006, respectively. The fixed to variable interest rate agreements had a notional principal amount of $225.0 million and had a weighted average interest rate of 9.65% and 9.86% at December 31, 2007 and 2006, respectively. At December 31, 2007, the Company held an unexercised interest rate swap put with a notional amount of $25.0 million at a fixed rate of 5.44%. The fair value of these derivative instruments, which aggregate ($49.6) million and $8.5 million at December 31, 2007 and 2006, respectively, is recorded as a component of long-term liabilities and other current liabilities in the consolidated balance sheets.

Of the total of $2,270.0 million, a notional amount of $1,460.0 million of these derivative instruments are 100% effective cash flow hedges. The value of these hedges at December 31, 2007 was ($32.5) million with changes in the mark-to-market value recorded as a component of other comprehensive income (loss), net of taxes. Should any portion of these instruments become ineffective due to a restructuring in Discovery s debt, the monthly changes in fair value would be reported as a component of other income on the Statement of Operations. Discovery does not expect any hedge ineffectiveness in the next twelve months. As of December 31, 2007, a parallel shift in the interest rate yield curve equal to one percentage point would change the fair value of the Discovery s interest rate derivative portfolio by approximately $45 million. In addition, a change of one percentage point in interest rates on variable rate debt would impact interest expense by approximately $10 million on a yearly basis.

Discovery s objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow. Accordingly, Discovery may enter into foreign currency derivative instruments that change in value as foreign exchange rates change. The foreign exchange instruments used are spot, forward, and option contracts. Additionally, Discovery enters into non-designated forward contracts to hedge non-dollar denominated cash flows and foreign currency balances. At December 31, 2007 and 2006, the notional amount of foreign exchange derivative contracts was $174.2 million and $364.1 million, respectively. The fair value of these derivative instruments is recorded as a component of long-term liabilities and other current liabilities in the consolidated balance sheets. These derivative instruments did not receive hedge accounting treatment. As of December 31, 2007, an estimated 10% adverse movement in exchange rates against the US dollar would change the fair value of Discovery s portfolio by approximately $8.5 million.

Discovery continually monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments and does not anticipate nonperformance by the counterparties. In addition, Discovery limits the amount of investment credit exposure with any one institution.

Appendix A Information Concerning Discovery Communications Holding, LLC Including Its Wholly Owned Subsidiary Discovery Communications, LLC

Part 3 Historical Consolidated Financial Statements

This Part 3 of Appendix A sets forth the historical consolidated financial statements of Discovery Communications Holding, LLC including its wholly owned subsidiary Discovery Communications, LLC. Please note that references in this Part 3 to Discovery and the Company refer to the intermediary holding company Discovery Communications Holding, LLC, and references to DCI and the Predecessor Company refer to Discovery Communications, Inc., which was converted into the operating company Discovery Communications, LLC (which is referred to as DCL).

Discovery Communications Holding, LLC

Consolidated Balance Sheets (Unaudited)

	March 31, 2008	December 31, 2007
	in thousands, except unit data	
ASSETS		
Current assets		
Cash and cash equivalents	$ 68,654	$ 44,951
Accounts receivable, less allowances of $23,833 and $22,419	743,495	741,745
Inventories	6,516	10,293
Deferred income taxes	92,297	103,723
Content rights, net	83,266	79,162
Other current assets	96,084	97,359
Total current assets	1,090,312	1,077,233
Property and equipment, net	379,125	397,430
Content rights, net, less current portion	1,045,593	1,048,193
Deferred launch incentives	223,285	242,655
Goodwill	4,873,518	4,870,187
Intangibles, net	168,036	181,656
Investments in and advances to unconsolidated affiliates	100,989	100,724
Other assets	40,479	42,352
TOTAL ASSETS	$ 7,921,337	$ 7,960,430
LIABILITIES AND MEMBERS EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 190,476	$ 267,818
Accrued payroll and employee benefits	113,919	183,823
Launch incentives payable	0	1,544
Content rights payable	54,201	56,334
Current portion of long-term incentive plan liabilities	91,539	141,562
Current portion of long-term debt	24,443	32,006
Income taxes payable	67,591	23,629
Unearned revenue	79,642	78,155
Other current liabilities	59,994	65,624
Total current liabilities	681,805	850,495
Long-term debt, less current portion	4,088,607	4,109,085
Derivative financial instruments, less current portion	100,996	49,110
Launch incentives payable, less current portion	4,735	6,114
Long-term incentive plan liabilities, less current portion	1,975	

Content rights payable, less current portion	5,489	2,459
Deferred income taxes	16,454	10,619
Other liabilities	170,961	175,565
Total liabilities	5,071,022	5,203,447
Mandatorily redeemable interests in subsidiaries	48,721	48,721
Commitments and contingencies		
Members Equity		
Members equity (51,119 member units issued, less 13,319 repurchased and retired)	2,533,694	2,533,694
Retained earnings	289,930	184,712
Accumulated other comprehensive loss	(22,030)	(10,144)
Total members equity	2,801,594	2,708,262
TOTAL LIABILITIES AND MEMBERS EQUITY	$ 7,921,337	$ 7,960,430

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

Discovery Communications Holding, LLC

Consolidated Statements of Operations (Unaudited)

	Successor	Predecessor
	Three Months Ended March 31,	
	2008	2007
	in thousands	
OPERATING REVENUE		
Advertising	$ 304,129	$ 289,769
Distribution	402,683	369,879
Other	87,766	50,550
Total operating revenue	794,578	710,198
Cost of revenue, exclusive of depreciation and amortization shown below	230,435	243,523
Selling, general & administrative	242,354	298,967
Depreciation & amortization	37,720	32,433
Total operating expenses	510,509	574,923
INCOME FROM OPERATIONS	284,069	135,275
OTHER INCOME (EXPENSE)		
Interest, net	(68,720)	(44,558)
Realized and unrealized (losses) gains from non-hedged derivative instruments, net	(16,095)	1,065
Minority interests in consolidated subsidiaries	(6,806)	(707)
Equity in earnings of unconsolidated affiliates	311	2,049
Total other expense, net	(91,310)	(42,151)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	192,759	93,124
Income tax expense	87,541	41,710
INCOME FROM CONTINUING OPERATIONS	105,218	51,414
Loss from discontinued operations, net of income tax benefit		(8,300)
NET INCOME	$ 105,218	$ 43,114

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

Discovery Communications Holding, LLC

Consolidated Statements of Cash Flows (Unaudited)

	Successor	Predecessor
	Three Months Ended March 31,	
	2008	2007
	in thousands	
OPERATING ACTIVITIES		
Net income	$ 105,218	$ 43,114
Adjustments to reconcile net income to cash provided by operations		
Depreciation and amortization	37,720	35,188
Amortization of deferred launch incentives and representation rights	19,889	24,712
Provision for losses on accounts receivable	2,212	1,778
Expenses (income) arising from long-term incentive plans	(35,857)	11,721
Equity in earnings of unconsolidated affiliates	(311)	(2,049)
Deferred income taxes	24,338	(27,419)
Realized and unrealized gains (losses) on derivative financial instruments, net	16,095	(1,065)
Non-cash minority interest charges	6,806	707
Other non-cash charges	(209)	(4,410)
Changes in assets and liabilities, net of business combinations		
Accounts receivable	2,373	35,023
Inventories	3,777	5,541
Other assets	(1,257)	(18,806)
Content rights, net of payables	1,466	4,405
Accounts payable and accrued liabilities	(96,912)	(72,290)
Deferred launch incentives	(3,986)	(196,081)
Long-term incentive plan liabilities	(12,411)	(7,000)
Cash provided by (used in) operations	68,951	(166,931)
INVESTING ACTIVITIES		
Acquisition of property and equipment	(13,955)	(13,407)
Business combinations, net of cash acquired	(2,773)	
Redemption of interests in subsidiaries		(44,000)
Cash used in investing activities	(16,728)	(57,407)
FINANCING ACTIVITIES		
Net borrowings on revolver loan	165,432	262,912
Principal payments of long-term debt	(190,431)	
Payments of capital leases and affiliated debt	(2,068)	(1,518)
Other financing	(9,967)	(21,163)
Cash (used in) provided by financing activities	(37,034)	240,231
Effect of exchange rate changes on cash and cash equivalents	8,514	3,129

CHANGE IN CASH AND CASH EQUIVALENTS		23,703		19,022
Cash and cash equivalents, beginning of year		44,951		52,263
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	68,654	$	71,285

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

Discovery Communications Holding, LLC

Consolidated Statements of Comprehensive Income (Unaudited)

	Period Ended March 31, 2008	Period Ended March 31, 2007
	in thousands	in thousands
Net income	$ 105,218	$ 43,114
Other comprehensive income (loss)		
Foreign currency translation adjustment	13,155	4,825
Change in unrealized gain on available-for-sale securities	855	2,501
Changes from hedging activities	(33,509)	(83)
	(19,499)	7,243
Income tax benefit related to other comprehensive income	7,613	(2,746)
	(11,886)	4,497
Total comprehensive income	$ 93,332	$ 47,611

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

Discovery Communications Holding, LLC

Notes to Consolidated Financial Statements

1. Basis of Presentation and Description of Business

Basis of Presentation

Discovery Communications Holding, LLC (Discovery or the Company) was formed through a conversion completed by Discovery Communications, Inc. (DCI or the Predecessor Company) on May 14, 2007. As part of the conversion, DCI became Discovery Communications, LLC (DCL), a wholly-owned subsidiary of Discovery, and the former shareholders of DCI, including Cox Communications Holdings, Inc. (Cox), Advance/Newhouse Programming Partnerships, and Discovery Holding Company (DHC) became members of Discovery. Immediately after this conversion, each of the members of Discovery held the same ownership interests in Discovery as their previous capital stock ownership interest had been in DCI. Subsequently, Discovery repurchased Cox s member s equity for approximately $1.9 billion.

The formation of Discovery required pushdown accounting and each investor s basis has been pushed down to Discovery. The pushdown of the investors bases resulted in the recording of approximately $4.6 billion of additional goodwill, which had been previously recorded on the investors books. The application of push down accounting represents the termination of the predecessor reporting entity, DCI, and the creation of the successor reporting entity, Discovery. Accordingly, the results for the period ended March 31, 2007 are presented as the Predecessor period, and the Successor period refers to all periods subsequent to May 15, 2007. Accordingly, a vertical black line is shown to separate the Company financial statements from those of the Predecessor Company for periods ended prior to May 15, 2007.

Interim Financial Statements

The accompanying interim unaudited consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. In the opinion of management, they contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position, the results of operations and cash flows for the periods presented in conformity with applicable to interim periods. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Discovery Communications Holding, LLC for the year ended December 31, 2007.

Description of Business

Discovery is a global media and entertainment company that provides original and purchased cable and satellite television programming across multiple platforms in the United States and over 170 other countries. Discovery also develops and sells proprietary merchandise, other products and educational product lines in the United States and internationally.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned and controlled subsidiaries. In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable

Interest Entities, an Interpretation of ARB No. 51 as revised in December 2003 (FIN 46R) and to assess whether it is the primary beneficiary of such entities. Variable Interest Entities (VIEs) are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders possess rights not proportionate to their ownership. The equity method of accounting is used for affiliates over which the Company exercises significant influence but does not control.

All inter-company accounts and transactions have been eliminated in consolidation.

Discovery Communications Holding, LLC

Notes to Consolidated Financial Statements (Continued)

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.

Recent Accounting Pronouncements

On January 1, 2008, the Company adopted certain provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 establishes a single authoritative definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. FAS 157 requires expanded disclosures about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. The provision of FAS 157 adopted on January 1, 2008 relates to financial assets and liabilities as well as other assets and liabilities carried at fair value on a recurring basis and the adoption did not have a material impact on the Company s consolidated financial statements. The provisions of FAS 157 related to other nonfinancial assets and liabilities will be effective for the Company January 1, 2009, and will be applied prospectively. The Company is currently evaluating the impact that these additional FAS 157 provisions will have on the Company s consolidated financial statements. See Note 3 for further discussion.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (FAS 141R). FAS 141R replaces Statement of Financial Accounting Standards No. 141, Business Combinations (FAS 141), although it retains the fundamental requirement in FAS 141 that the acquisition method of accounting be used for all business combinations. FAS 141R establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree, (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase and (c) determines what information to disclose regarding the business combination. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the Company s 2009 fiscal year.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (FAS 160). FAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, commonly referred to as minority interest. Among other matters, FAS 160 requires (a) the noncontrolling interest be reported within equity in the balance sheet and (b) the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly presented in the statement of income. FAS 160 is effective for the Company s 2009 fiscal year. FAS 160 is to be applied prospectively, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. The Company is currently assessing the potential effect of FAS 160 on its financial statements.

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161). FAS 161 requires entities to provide enhanced disclosures related to how an entity uses derivative instruments, how derivatives are accounted for under FASB

Statement No. 133, Accounting for Derivative Instruments and Hedging Activities and how derivative instruments and the related hedged items impact an entity s financial statements. FAS 161 is effective for the Company beginning in 2009. The Company is currently assessing the effect of the disclosure requirements on the Company s financial statements.

Discovery Communications Holding, LLC

Notes to Consolidated Financial Statements (Continued)

Cash and Cash Equivalents

Highly liquid investments with original maturities of ninety days or less are recorded as cash equivalents. Restricted cash of $1.3 million and $3.2 million is included in other current assets as of March 31, 2008 and December 31, 2007, respectively. Book overdrafts representing outstanding checks in excess of funds on deposit are a component of accounts payable and total $0.9 million and $10.9 million as of March 31, 2008 and December 31, 2007, respectively.

Inventories

Inventories are carried at the lower of cost or market. Cost is determined using the weighted average cost method.

3. Fair Value Measurements

In accordance with FAS 157, a fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. FAS 157 also established a three-tiered hierarchy that draws a distinction between market participant assumptions based on i) observable inputs such as quoted prices in active markets (Level 1), ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). We maintain policies and procedures to value instruments using the best and most relevant data available. The following table presents information about assets and liabilities required to be carried at fair value on a recurring basis as of March 31, 2008:

		Fair Value Measurements as of March 31, 2008 Using		
Description	**Fair Value as of 3/31/08**	**Quoted Market Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		in thousands		
Assets				
Available for sale securities	$ 19,798	$ 19,798		
Deferred compensation plan assets	39,272	39,272		
Liabilities				
Derivatives	(100,996)		$ (100,996)	
Deferred compensation plan liability	(39,272)		(39,272)	
HSW International, Inc. (HSWI) liability	(53,722)			$ (53,722)
Long-term Incentive Plan liability	(93,514)		(93,514)	
	(48,721)			(48,721)

Mandatorily redeemable interests in subsidiaries				
Total	$ (277,155)	$ 59,070	$ (233,782)	$ (102,443)

For assets that are measured using quoted prices in active markets, the total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. Assets and liabilities that are measured using significant other observable inputs are primarily valued by reference to quoted prices of similar assets or liabilities in active markets, adjusted for any terms specific to that asset or liability.

The value of the HSWI liability is determined based on a discounted cash flow model using management s best judgments with respect to discount rates and terminal values. The Company estimates the mandatorily redeemable interests in subsidiaries based on a contractual formula considering the projected results of applicable networks

Discovery Communications Holding, LLC

Notes to Consolidated Financial Statements (Continued)

(See Note 7). There was no material activity related to fair value measurements using significant unobservable inputs during the quarter ended March 31, 2008.

4. Discontinued Operations

The Company decided to close its 103 mall based and stand alone Discovery Stores (Retail) in the third quarter of 2007. As there is no continuing involvement in the retail stores or significant migration of retail customers to e-commerce, the results of the Retail business are accounted for as discontinued operations in the consolidated financial statements for the periods presented herein as well as at year-end, in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment and Disposal of Long-lived Assets (FAS 144).

The following amounts related to Retail have been segregated from continuing operations and included in loss from discontinued operations in the consolidated statements of income:

	Successor Period Ended March 31, 2008	Predecessor Period Ended March 31, 2007
	in thousands	
Revenue	$	$ 17,628
Loss from discontinued operations before income taxes		(13,384)
Loss from discontinued operations, net of tax		(8,300)

No interest expense was allocated to discontinued operations for the periods presented herein since there was no debt specifically attributable to discontinued operations or required to be repaid following the closure of the retail stores.

5. Content Rights

Content Rights	March 31, 2008	December 31, 2007
	in thousands	
Produced content rights		
Completed	$ 1,392,620	$ 1,346,985
In process	240,087	195,025
Co-produced content rights		
Completed	461,364	499,127
In process	58,567	53,984
Licensed content rights		
Acquired	208,211	209,082

Prepaid	25,834	21,690
Content rights, at cost	2,386,683	2,325,893
Accumulated amortization	(1,257,824)	(1,198,538)
Content rights, net	1,128,859	1,127,355
Current portion, licensed content rights	(83,266)	(79,162)
Non-current portion	$ 1,045,593	$ 1,048,193

Amortization of content rights is recorded as a component of cost of revenue and was $152.8 million and $169.4 million, for the period ended March 31, 2008 and 2007, respectively.

Discovery Communications Holding, LLC

Notes to Consolidated Financial Statements (Continued)

6. Debt

	March 31, 2008	December 31, 2007
	in thousands	
$1,000,000.0 Term Loan A due quarterly December 2008 to October 2010	$ 1,000,000	$ 1,000,000
$1,555,000.0 Revolving Loan, due October 2010	503,000	337,500
260,000.0 Revolving Loan, due April 2009	94,297	94,174
$1,500,000.0 Term Loan B due quarterly September 2007 to May 2014	1,488,750	1,492,500
8.06% Senior Notes, semi-annual interest, due March 2008		180,000
7.45% Senior Notes, semi-annual interest, due September 2009	55,000	55,000
8.37% Senior Notes, semi-annual interest, due March 2011	220,000	220,000
8.13% Senior Notes, semi-annual interest, due September 2012	235,000	235,000
Floating Rate Senior Notes, semi-annual interest, due December 2012	90,000	90,000
6.01% Senior Notes, semi-annual interest, due December 2015	390,000	390,000
£10,000.0 Uncommitted Facility, due August 2008	2,473	8,785
Obligations under capital leases	33,605	37,172
Other notes payable	944	960
Subtotal	4,113,050	4,141,091
Current portion	(24,443)	(32,006)
Total long-term debt	$ 4,088,607	$ 4,109,085

In March 2008 the Company borrowed additional funds under its Revolving Loan to redeem the maturing $180.0 million 8.06% Senior Notes.

7. Mandatorily Redeemable Interests in Subsidiaries

The BBC has the right, upon a failure of the People & Arts Latin America or the Animal Planet Channel Group (comprised of Animal Planet Europe, Animal Planet Asia, and Animal Planet Latin America), the Channel Groups, to achieve certain financial performance benchmarks to put its interests back to the Company for a value determined by a specified formula. The redemption value estimate is based on a contractual formula considering the projected results of each network within the channel group. The Company has accreted to an estimated redemption value of $48.7 million as of March 31, 2008 and December 31, 2007, based on certain estimates and legal interpretations. Changes in contractual interpretations and assumptions used to estimate the redemption value could materially impact current estimates. The Company recorded no accretion to the redemption value during the period ended March 31, 2008. Accretion during the period ended March 31, 2007 was $0.7 million.

8. Commitments and Contingencies

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

9. Income Taxes

Discovery s effective tax rate related to income from continuing operations was 45% for each of three-months ended March 31, 2008 and March 31, 2007. Discovery s effective tax rate differed from the federal income tax rate of 35% primarily due to foreign and state taxes.

Discovery Communications Holding, LLC

Notes to Consolidated Financial Statements (Continued)

As of January 1, 2008, the Company s unrecognized tax benefit was $88.7 million. The balance decreased by $7.3 million during the three months ended March 31, 2008 mainly as a result of filing a non-US amended prior year income tax return. The reduction was partially offset by addition to tax positions for the current year. It is reasonably possible that the total amount of unrecognized tax benefits related to tax positions taken (or expected to be taken) on 2005, 2006, 2007 and 2008 non-U.S. tax returns could decrease by as much as $21.6 million within the current year as a result of settlement of audit issues and/or payment of uncertain tax liabilities, all of which could impact the effective tax rate.

10. Related Party Transactions

The Company identifies related parties as investors in their consolidated subsidiaries, the Company s joint venture partners and equity investments, and the Company s executive management. Transactions with related parties typically result from distribution of networks, production of content, or media uplink services. Gross revenue earned from related parties was $7.2 million and $19.4 million for the period ended March 31, 2008 and 2007, respectively. Accounts receivable from these entities were $6.6 million and $6.5 million at March 31, 2008 and December 31, 2007, respectively. Purchases from related parties totaled $14.9 million and $15.7 million for the period ended March 31, 2008 and 2007, respectively; of these purchases, $1.7 million and $2.4 million related to capitalized assets for the period ended March 31, 2008 and 2007, respectively. Amounts payable to these parties totaled $10.9 million and $11.9 million at March 31, 2008 and December 31, 2007, respectively.

As of December 31, 2006, one of the DCI s stockholders held 44,000 senior preferred partnership units of Animal Planet LP (APLP) that had a redemption value of $44.0 million and carried a rate of return ranging from 8.75% to 13%. APLP s senior preferred partnership units were called by DCI in January 2007 for $44.0 million, plus accrued interest of $0.5 million.

11. Members Equity Transaction

On June 4, 2008, our Members signed an agreement to contribute their interests in the Company to a newly formed public entity. When this transaction is consummated, it is expected that the Company will become a consolidated subsidiary of that newly formed public entity.

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 sheet and 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, 2006, and the results of their operations and their cash flows for the period from January 1, 2007 through May 14, 2007, and for each of the two years in the period ended December 31, 2006 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.

As discussed in Note 16 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions effective January 1, 2007.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 14, 2008

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Members of
Discovery Communications Holding, LLC:

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of operations, of changes in members equity, and of cash flows, present fairly, in all material respects, the financial position of Discovery Communications Holding, LLC and its subsidiaries at December 31, 2007 and the results of their operations and their cash flows for the period from May 15, 2007 through December 31, 2007 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 audit. We conducted our audit 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 audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 14, 2008

DISCOVERY COMMUNICATIONS HOLDING, LLC

Consolidated Balance Sheets

	Successor Company December 31, 2007	Predecessor Company December 31, 2006
	in thousands, except share data	
ASSETS		
Current assets		
Cash and cash equivalents	$ 44,951	$ 52,263
Accounts receivable, less allowances of $22,419 and $25,175	741,745	657,552
Inventories	10,293	35,716
Deferred income taxes	103,723	76,156
Content rights, net	79,162	64,395
Other current assets	97,359	84,554
Total current assets	1,077,233	970,636
Property and equipment, net	397,430	424,041
Content rights, net, less current portion	1,048,193	1,253,553
Deferred launch incentives	242,655	207,032
Goodwill	4,870,187	365,266
Intangibles, net	181,656	107,673
Investments in and advances to unconsolidated affiliates	100,724	15,564
Other assets	42,352	32,788
TOTAL ASSETS	$ 7,960,430	$ 3,376,553
LIABILITIES AND MEMBERS EQUITY/STOCKHOLDERS DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	$ 267,818	$ 316,804
Accrued payroll and employee benefits	183,823	122,431
Launch incentives payable	1,544	17,978
Content rights payable	56,334	57,694
Current portion of long-term incentive plan liabilities	141,562	43,274
Current portion of long-term debt	32,006	7,546
Income taxes payable	23,629	55,264
Unearned revenue	78,155	68,339
Other current liabilities	65,624	45,194
Total current liabilities	850,495	734,524
Long-term debt, less current portion	4,109,085	2,633,237
Derivative financial instruments, less current portion	49,110	8,282
Launch incentives payable, less current portion	6,114	10,791

Long-term incentive plan liabilities, less current portion		41,186
Content rights payable, less current portion	2,459	3,846
Deferred income taxes	10,619	46,289
Other liabilities	175,565	64,861
Total liabilities	5,203,447	3,543,016
Mandatorily redeemable interests in subsidiaries	48,721	94,825
Commitments and contingencies		
Members Equity/Stockholders deficit		
Class A common stock; $.01 par value; zero shares authorized, issued or outstanding at December 31, 2007; 100,000 shares authorized, 51,119 shares issued, less 719 shares of treasury stock at December 31, 2006		1
Class B common stock; $.01 par value; zero shares authorized, issued or outstanding at December 31, 2007; 60,000 shares authorized, 50,615 shares issued and held in treasury stock at December 31, 2006		
Additional paid-in capital		21,093
Members equity (51,119 member units issued, less 13,319 repurchased and retired)	2,533,694	
Retained earnings (deficit)	184,712	(306,135)
Accumulated other comprehensive (loss) income	(10,144)	23,753
Total members equity/stockholders deficit	2,708,262	(261,288)
TOTAL LIABILITIES AND MEMBERS EQUITY/STOCKHOLDERS DEFICIT	$ 7,960,430	$ 3,376,553

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

DISCOVERY COMMUNICATIONS HOLDING, LLC

Consolidated Statements of Operations

	Successor Company	Predecessor Company		
	May 15, 2007 through December 31, 2007	January 1, 2007 through May 14, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
	in thousands			
OPERATING REVENUE				
Advertising	$ 874,894	$ 470,139	$ 1,243,500	$ 1,187,823
Distribution	930,386	547,093	1,434,901	1,198,686
Other	222,626	82,195	205,270	157,849
Total operating revenue	2,027,906	1,099,427	2,883,671	2,544,358
OPERATING EXPENSES				
Cost of revenue, exclusive of depreciation and amortization shown below	799,716	373,191	1,032,789	907,664
Selling, general and administrative	823,918	486,129	1,143,349	978,415
Depreciation and amortization	82,807	73,943	122,037	112,653
Gain from disposition of business	(134,671)			
Total operating expenses	1,571,770	933,263	2,298,175	1,998,732
INCOME FROM OPERATIONS	456,136	166,164	585,496	545,626
OTHER INCOME (EXPENSE)				
Interest, net	(180,157)	(68,600)	(194,255)	(184,585)
Realized and unrealized (losses) gains from non-hedged derivative instruments, net	(10,986)	2,350	22,558	22,499
Minority interests in consolidated subsidiaries	(7,133)	(1,133)	(2,451)	(43,696)
Equity in earnings of unconsolidated affiliates	5,093	3,529	7,060	4,660
Other, net	(448)	(335)	1,467	9,111
Total other expense, net	(193,631)	(64,189)	(165,621)	(192,011)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	262,505	101,975	419,875	353,615
Income tax expense	25,303	52,163	190,381	173,427

INCOME FROM CONTINUING OPERATIONS		237,202		49,812		229,494		180,188
DISCONTINUED OPERATIONS								
Loss from discontinued operations, net of income tax benefit		(52,490)		(12,533)		(22,318)		(20,568)
LOSS FROM DISCONTINUED OPERATIONS		(52,490)		(12,533)		(22,318)		(20,568)
NET INCOME	$	184,712	$	37,279	$	207,176	$	159,620

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

DISCOVERY COMMUNICATIONS HOLDING, LLC

Consolidated Statements of Cash Flows

	Successor Company	Predecessor Company		
	May 15, 2007 through December 31, 2007	January 1, 2007 through May 14, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
	in thousands			
OPERATING ACTIVITIES				
Net income	$ 184,712	$ 37,279	$ 207,176	$ 159,620
Adjustments to reconcile net income to cash provided by (used in) operations:				
Depreciation and amortization	111,208	77,186	133,634	123,209
Amortization of deferred launch incentives and representation rights	58,425	37,158	77,778	83,411
Provision (reversal) for losses on accounts receivable	(2)	1,855	3,691	12,217
Expenses arising from long-term incentive plans	78,527	62,850	39,233	49,465
Equity in earnings of unconsolidated affiliates	(5,093)	(3,529)	(7,060)	(4,660)
Deferred income taxes	(70,978)	10,511	108,903	109,383
Realized and unrealized gains on derivative financial instruments, net	10,986	(2,350)	(22,558)	(22,499)
Gain from disposition of business	(134,671)			
Non-cash minority interest charges	7,133	1,133	2,451	43,696
Gain on sale of investments			(1,467)	(12,793)
Other non-cash (income) charges	1,733	(4,263)	2,447	9,675
Changes in assets and liabilities, net of business combinations and dispositions:				
Accounts receivable	(45,808)	(29,507)	(84,598)	(37,207)
Inventories	21,666	4,805	(4,560)	1,853
Other assets	27,682	(23,872)	(7,434)	(18,748)
Content rights, net of payables	110,811	(2,689)	(84,377)	(108,155)
Accounts payable and accrued liabilities	119,769	(93,260)	73,646	47,913
Representation rights			93,233	(6,000)
Deferred launch incentives	(25,623)	(197,624)	(49,386)	(35,731)
Long-term incentive plan liabilities	(76,315)	(7,773)	(841)	(325,756)
Cash provided by (used in) operations	374,162	(132,090)	479,911	68,893
INVESTING ACTIVITIES				
Acquisition of property and equipment	(55,965)	(24,588)	(90,138)	(99,684)
	(306,094)		(194,905)	(400)

Business combinations, net of cash acquired				
Purchase of intangibles				(583)
Investments in and advances to unconsolidated affiliates				(363)
Redemption of interests in subsidiaries		(44,000)	(180,000)	(92,874)
Proceeds from sale of investments			1,467	14,664
Cash used in investing activities	(362,059)	(68,588)	(463,576)	(179,240)
FINANCING ACTIVITIES				
Proceeds from issuance of long-term debt	1,286,362	211,277	316,813	1,785,955
Principal payments of long-term debt	(11,742)	(2,356)	(307,030)	(1,697,068)
Deferred financing fees	(4,690)	(16)	(1,144)	(4,810)
Repurchase of member s interest	(1,284,544)			
Contributions from minority shareholders				603
Other financing	(17,590)	(2,473)	(9,963)	32,153
Cash (used in) provided by financing activities	(32,204)	206,432	(1,324)	116,833
Effect of exchange rate changes on cash and cash equivalents	2,658	4,377	2,761	3,723
CHANGE IN CASH AND CASH EQUIVALENTS	(17,443)	10,131	17,772	10,209
Cash and cash equivalents, beginning of period	62,394	52,263	34,491	24,282
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 44,951	$ 62,394	$ 52,263	$ 34,491

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

DISCOVERY COMMUNICATIONS HOLDING, LLC

Consolidated Statements of Changes in Member s Equity and Stockholders Deficit

	Class A Common Stock At Par	Redeemable	Additional Paid-in Capital/ Members Equity	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss) Foreign Currency Translation	Unrealized Gain (Loss) on Investment	Unrealized Gain (Loss) from Hedging Activities	TOTAL
					in thousands			
Predecessor Company:								
Balance, December 31, 2004	$ 1	$	$ 21,093	$ (672,931)	$ 22,732	$ 1,179	$	$ (627,926)
Comprehensive income								
Net income				159,620				
Foreign currency translation, net of tax of $9.6 million					(16,017)			
Unrealized loss on investments, net of tax of $0.1 million						(101)		
Unamortized gain on cash flow hedge, net of tax of $1.3 million							2,066	
Total comprehensive income								145,568
Balance, December 31, 2005	$ 1	$	$ 21,093	$ (513,311)	$ 6,715	$ 1,078	$ 2,066	$ (482,358)
Comprehensive income								
Net income				$ 207,176				
Foreign currency translation, net of tax of $8.8 million					$ 14,458			
Unrealized loss on investments, net of tax of $0.2 million						$ (355)		
Amortization of gain on cash flow hedge, net of tax of $0.1 million							$ (209)	
								$ 221,070

Total comprehensive income								
Balance, December 31, 2006	$ 1	$	$ 21,093	$ (306,135)	$ 21,173	$ 723	$ 1,857	$ (261,288)
Comprehensive income								
Net income for the period January 1, 2007 through May 14, 2007				37,279				
Foreign currency translation, net of tax of $4.7 million					7,691			
Unrealized gain on investments, net of tax of $0.9 million						1,552		
Amortization of gain on cash flow hedge							(77)	
Cumulative effect for the adoption of FIN 48				(5,011)				
Total comprehensive income								41,434
Balance, May 14, 2007	$ 1	$	$ 21,093	$ (273,867)	$ 28,864	$ 2,275	$ 1,780	$ (219,854)
Successor Company:								
Formation of Successor Company								
Pushdown of investor basis			4,392,804					4,392,804
Comprehensive income								
Net income for the period May 15, 2007 through December 31, 2007				184,712				
Foreign currency translation, net of tax of $4.4 million					7,354			
Unrealized gain on investments, net of tax of $1.8 million						3,011		
Changes from hedging activities, net of tax of $12.2 million							(20,509)	
Total comprehensive income								174,568
Repurchase of members interest			(1,859,110)					(1,859,110)
Balance, December 31, 2007			$ 2,533,694	$ 184,712	$ 7,354	$ 3,011	$ (20,509)	$ 2,708,262

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

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements

1. Basis of Presentation and Description of Business

Basis of Presentation

Discovery Communications Holding, LLC (Discovery or the Company) was formed through a conversion completed by Discovery Communications, Inc. (DCI or the Predecessor Company) on May 14, 2007. As part of the conversion, DCI became Discovery Communications, LLC (DCL), a wholly-owned subsidiary of Discovery, and the former shareholders of DCI, including Cox Communications Holdings, Inc. (Cox), Advance/Newhouse Programming Partnerships, and Discovery Holding Company (DHC) became members of Discovery. Subsequent to this conversion, each of the members of Discovery held the same ownership interests in Discovery as their previous capital stock ownership interest had been in DCI.

The formation of Discovery required pushdown accounting and each shareholder s basis has been pushed down to Discovery. The pushdown of the investors bases resulted in the recording of approximately $4.6 billion of additional goodwill, which had been previously recorded on the investors books. No other basis differentials existed on the investors books; therefore, no other assets or liabilities were adjusted. The application of push down accounting represents the termination of the predecessor reporting entity, DCI, and the creation of the successor reporting entity, Discovery. Accordingly, the results for the year ended December 31, 2007 are required to be presented as two distinct periods. The Predecessor period refers to the period from January 1 through May 14, 2007, while the Successor period refers to the period from May 15 through December 31, 2007. Accordingly, a vertical black line is shown to separate the Company financial statements from those of the Predecessor Company for periods ended prior to May 15, 2007. As the entire pushdown was associated with non-amortizable goodwill, there was no adjustment to the income statement during the Successor period as a result of this transaction.

Subsequent to the formation of Discovery, Cox exchanged its 25% ownership interest in Discovery for all of the capital stock of a subsidiary of Discovery that held the Travel Channel and travelchannel.com (collectively, the Travel Business) and approximately $1.3 billion in cash. Discovery retired the membership interest previously owned by Cox. The distribution of the Travel Business, which was valued at $575.0 million, resulted in a $134.7 million tax-free gain included in continuing operations. The gain was net of $280.8 million in reporting unit goodwill and $159.5 million in net assets. The net impact to goodwill as a result of the pushdown of investor basis and disposition of the Travel Business was $4.3 billion.

Description of Business

Discovery is a global media and entertainment company that provides original and purchased cable and satellite television programming across multiple platforms in the United States and over 170 other countries. Discovery also develops and sells proprietary merchandise, other products and educational product lines in the United States and internationally. Discovery operates through three divisions: (1) U.S. networks, (2) international networks, and (3) Discovery commerce and education.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned and controlled subsidiaries. In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 as revised in December 2003 (FIN 46R) and to assess whether it is the primary beneficiary of such entities. Variable Interest Entities (VIEs)are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders possess rights not proportionate to their ownership. The equity method of accounting is used for affiliates over which the Company exercises significant influence but does not control.

All inter-company accounts and transactions have been eliminated in consolidation.

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

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.

Recent Accounting Pronouncements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (FAS 159). FAS 159 gives entities the irrevocable option to carry most financial assets and liabilities at fair value, with changes in fair value recognized in earnings. FAS 159 is effective for the Company as of the beginning of the Company s 2008 fiscal year. The Company expects to adopt fair value accounting for its equity investment in HSWi (see Note 4). The impact could be material to the financial statements depending upon changes in fair value. The Company is currently assessing the potential effect of FAS 159 on its other assets and liabilities.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. FAS 157 requires expanded disclosures about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. FAS 157 will be effective for the Company s 2008 fiscal year. The Company is currently assessing the potential effect of FAS 157 on its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (FAS 141R). FAS 141R replaces Statement of Financial Accounting Standards No. 141, Business Combinations (FAS 141), although it retains the fundamental requirement in FAS 141 that the acquisition method of accounting be used for all business combinations. FAS 141R establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree, (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase and (c) determines what information to disclose regarding the business combination. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the Company s 2009 fiscal year.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (FAS 160). FAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, commonly referred to as minority interest. Among other matters, FAS 160 requires (a) the noncontrolling interest be reported within equity in the balance sheet and (b) the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly presented in the statement of income. FAS 160 is effective for the Company s 2009 fiscal year. FAS 160 is to be applied prospectively, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. The Company is currently assessing the potential effect of FAS 160 on its financial statements.

Revenue Recognition

The Company derives revenue from three primary sources: (1) advertising revenue for commercial spots aired on the Company s networks and websites, (2) distribution revenue from cable system and satellite operators (distributors), and (3) Other, which is largely e-commerce and educational sales.

Advertising revenue is recorded net of agency commissions and audience deficiency liabilities in the period advertising spots are broadcast. Distribution revenue is recognized over the service period, net of launch incentives and other vendor consideration. E-commerce and educational product revenues are recognized either at the

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

point-of-sale or upon product shipment. Educational service sales are generally recognized ratably over the term of the agreement.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs of $107.7 million, $71.6 million, $207.7 million and $208.6 million were incurred from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively.

Cash and Cash Equivalents

Highly liquid investments with original maturities of ninety days or less are recorded as cash equivalents. Restricted cash of $7.6 million and $7.1 million is included in other current assets as of December 31, 2007 and 2006, respectively. Book overdrafts representing outstanding checks in excess of funds on deposit are a component of accounts payable and total $10.9 million and $30.9 million in 2007 and 2006, respectively.

Derivative Financial Instruments

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), requires every derivative instrument to be recorded on the balance sheet at fair value as either an asset or a liability. The statement also requires that changes in the fair value of derivatives be recognized currently in earnings unless specific hedge accounting criteria are met. The Company uses financial instruments designated as cash flow hedges. The effective changes in fair value of derivatives designated as cash flow hedges are recorded in accumulated other comprehensive income (loss). Amounts are reclassified from accumulated other comprehensive income (loss) as interest expense is recorded for debt. The Company uses the cumulative dollar offset method to assess effectiveness. To be highly effective, the ratio calculated by dividing the cumulative change in the value of the actual swap by the cumulative change in the hypothetical swap must be between 80% and 125%. The ineffective portion of a derivative s change in fair value is immediately recognized in earnings. The Company uses derivatives instruments principally to manage the risk associated with the movements of foreign currency exchange rates and changes in interest rates that will affect the cash flows of its debt transactions. See Note 17 for additional information regarding derivative instruments held by the Company and risk management strategies.

Inventories

Inventories are carried at the lower of cost or market. Cost is determined using the weighted average cost method.

Content Rights

Costs incurred in the direct production, co-production or licensing of content rights are capitalized and stated at the lower of unamortized cost, fair value, or net realizable value. The Company evaluates the net realizable value of content by considering the fair value of the underlying produced and co-produced content and the net realizable values of the licensed content quarterly.

The costs of produced and co-produced content airing on the Company s networks are capitalized and amortized based on the expected realization of revenues, resulting in an accelerated basis over four years for developed networks (Discovery Channel, TLC and Animal Planet) in the United States, and a straight-line basis over no longer than five years for developing networks (all other networks in the United States) and all networks in the International division. The cost of licensed content is capitalized and amortized over the term of the license period based on the expected realization of revenues, resulting in an accelerated basis for developed networks in the United States, and a straight-line basis for all International networks, developing networks in the United States and educational ventures. The costs of content for electronic, video and hardcopy educational supplements are amortized on a straight-line basis over a three to five year period.

All produced and co-produced content is classified as long-term. The portion of the unamortized licensed content balance that will be amortized within one year is classified as a current asset. The Company s co-production

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

arrangements generally represent the sharing of production cost. The Company records its share of costs gross and records no amounts for the portion of costs borne by the other party as the Company does not share any associated economics of exploitation.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is recognized on a straight-line basis over the estimated useful lives of three to seven years for equipment, furniture and fixtures, five to forty years for building structure and construction, and six to twelve years for satellite transponders. Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful lives or the terms of the related leases, beginning on the date the asset is put into use. Equipment under capital lease represents the present value of the minimum lease payments at the inception of the lease, net of accumulated depreciation.

Capitalized Software Costs

All capitalized software costs are for internal use. Capitalization of costs occurs during the application development stage. Costs incurred during the pre and post implementation stages are expensed as incurred. Capitalized costs are amortized on a straight-line basis over their estimated useful lives of one to five years. Unamortized capitalized costs totaled $57.1 million and $61.4 million at December 31, 2007 and 2006 respectively. Software costs of $8.7 million, $7.2 million, $21.6 million and $23.2 million were capitalized from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Amortization of capitalized software costs totaled $12.7 million, $7.3 million, $18.3 million, and $19.3 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. There were no write-offs for capitalized software costs during 2007, 2006 and 2005.

Recoverability of Long-Lived Assets, Goodwill, and Intangible Assets

The Company annually assesses the carrying value of its acquired intangible assets, including goodwill, and its other long-lived assets, including deferred launch incentives, to determine whether impairment may exist, unless indicators of impairment become evident requiring immediate assessment. Goodwill impairment is identified by comparing the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill within the reporting unit is less than its carrying value. Intangible assets and other long-lived assets are grouped for purposes of evaluating recoverability at the lowest level for which independent cash flows are identifiable. If the carrying amount of an intangible asset, long-lived asset, or asset grouping exceeds its fair value, an impairment loss is recognized. Fair values for reporting units, goodwill and other asset groups are determined based on discounted cash flows, market multiples, or comparable assets as appropriate. During the Predecessor period, DCI recorded an asset impairment of $26.2 million for education assets related to its consumer business, which is included as a component of depreciation and amortization. During the Successor period, the Company recorded a $28.3 million write-off of leasehold improvements related to store closures which is included in loss from discontinued operations.

The determination of recoverability of goodwill and other intangibles and long-lived assets requires significant judgment and estimates regarding future cash flows, fair values, and the appropriate grouping of assets. Such estimates are subject to change and could result in impairment losses being recognized in the future. If different reporting units, asset groupings, or different valuation methodologies had been used, the impairment test results could have differed.

Deferred Launch Incentives

Consideration issued to cable and satellite distributors in connection with the execution of long-term network distribution agreements is deferred and amortized on a straight-line basis as a reduction to revenue over the terms of the agreements. Obligations for fixed launch incentives are recorded at the inception of the agreement. Following the renewal of a distribution agreement, the remaining deferred consideration is amortized over the extended period.

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Notes to Consolidated Financial Statements (Continued)

Amortization of deferred launch incentives and interest on unpaid deferred launch incentives was $61.4 million, $39.0 million, $79.1 million and $74.1 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. During 2007, in connection with the settlement of terms under a pre-existing distribution agreement, Discovery completed negotiations for the renewal of long-term distribution agreements for certain of its U.K. networks and paid a distributor $195.8 million, most of which is being amortized over a 5 year period.

Foreign Currency Translation

The Company s foreign subsidiaries assets and liabilities are translated at exchange rates in effect at the balance sheet date, while results of operations are translated at average exchange rates for the respective periods. The resulting translation adjustments are included as a separate component of members equity/stockholders deficit in accumulated other comprehensive income (loss). Intercompany accounts of a trading nature are revalued at exchange rates in effect at each month end and are included as part of operating income in the consolidated Statements of Operations.

Long-term Incentive Plans

Prior to August 2005, DCI maintained two unit-based, cash settled, long-term incentive plans. Under these plans, unit awards, which vest over a period of years, were granted to eligible employees and increased or decreased in value based on a specified formula of DCI s business metrics. DCI accounted for these units similar to stock appreciation rights and applied the guidance in FASB Interpretation Number 28, Accounting for Stock Issued to Employees (FIN 28). Accordingly, DCI adjusted compensation expense for changes in the accrued value of these awards over the period outstanding.

In August 2005, DCI discontinued one of its long-term incentive plans and settled all amounts with cash payments. In October 2005, DCI established a new long-term incentive plan for certain eligible employees. Substantially all participants in the remaining plan redeemed their vested units for cash payment and received units in the new plan.

Under the new plan, eligible employees receive cash settled unit awards indexed to the price of Class A DHC stock. As the units are indexed to the equity of another entity, the Company treats the units similar to a derivative, by determining their fair value each reporting period. The Company attributes compensation expense for the new awards on a straight-line basis; the Company attributes compensation expense for the initial grant of partially vested units by continuing to apply the FIN 28 model that was utilized over the awards original vesting periods. Once units are fully vested, the Company recognizes all mark-to-market adjustments to fair value in each period as compensation expense. In March 2005, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the classification of compensation expense associated with share-based payment awards. By applying the provisions of SAB 107, all long term incentive compensation expense is recorded as a component of selling, general and administrative expenses.

The Company classifies as a current liability the lesser of 100% of the intrinsic value of the units that are vested or will become vested within one year or the Black-Scholes value of units that have been attributed. Upon voluntary termination of employment, the Company distributes 100% of unit benefits if employees agree to certain provisions. Prior to a plan amendment in August 2007, the Company classified as a current liability 75% of the intrinsic value of vested units or units vesting within one year, as this amount corresponded to the value potentially payable should all participants separate from the Company. Upon voluntary termination of employment, the Company distributed 75% of unit benefits. The remainder was paid at the one-year anniversary of termination date. The August 2007 plan amendment eliminated the deferral of the final 25%. As such, employees are paid 100% of their vested amount upon separation from the Company.

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

Mandatorily Redeemable Interest in Subsidiaries

For those instruments with an estimated redemption value, mandatorily redeemable interest in subsidiaries is accreted or decreted to an estimated redemption value ratably over the period to the redemption date. Accretion and decretion are recorded as a component of minority interest expense. For instruments with a specified rate of return, DCI records interest expense as incurred. Cash receipts and payments for the sale or purchase of mandatorily redeemable interests in subsidiaries are included as a component of investing cash flows.

Minority Interest

In addition to the accretion and decretion on redeemable minority interests, the Company records minority interest expense for the portion of the earnings of consolidated entities which are applicable to the minority interest partners.

Treasury Stock

Treasury stock is accounted for using the cost method by DCI, the Predecessor. The repurchased shares are held in treasury and are presented as if retired. There was no treasury stock activity from January 1, 2007 through May 14, 2007 or for the year ended December 31, 2006. Discovery, the Successor, purchased and retired the membership equity of Cox. (See Note 1 Basis of Presentation and Description of Business.)

Discontinued Operations

In determining whether a group of assets disposed of should be presented as a discontinued operation, the Company makes a determination as to whether the group of assets being disposed of comprises a component of the entity, which requires cash flows that can be clearly distinguished from the rest of the entity. The Company also determines whether the cash flows associated with the group of assets have been or will be significantly eliminated from the ongoing operations of the Company as a result of the disposal transaction and whether the Company has no significant continuing involvement in the operations of the group of assets after the disposal transaction. If these determinations can be made affirmatively, the results of operations of the group of assets being disposed of (as well as any gain or loss on the disposal transaction) are aggregated for separate presentation apart from continuing operating results of the Company in the consolidated financial statements. The Company has elected not to segregate the cash flows from discontinued operations in its presentation of the Statements of Cash Flows.

Income Taxes

Income taxes are recorded using the asset and liability method of accounting for income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not such assets will be unrealized.

Effective January 1, 2007, DCI adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In instances where the Company has taken or expects to take a tax position in its tax return and the Company believes it is more likely than not that such tax position will be upheld by the relevant taxing authority upon settlement, the Company may record the benefits of such tax position in its consolidated financial statements. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Upon adoption of FIN 48, DCI recorded a $5.0 million net tax liability recorded directly to accumulated deficit.

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Notes to Consolidated Financial Statements (Continued)

3. Supplemental Disclosures to Consolidated Statements of Cash Flows

	Successor	Predecessor		
	May 15 through December 31, 2007	January 1 through May 14, 2007	2006	2005
	in thousands			
Cash paid for acquisitions:				
Fair value of assets acquired	$ 419,154	$	$ 223,293	$ 400
Fair value of liabilities Assumed	(113,060)		(28,388)	
Cash paid for acquisitions, net of cash acquired	$ 306,094	$	$ 194,905	$ 400
Cash paid for interest	$ 179,669	$ 77,849	$ 196,195	$ 171,151
Cash paid for income taxes	$ 58,323	$ 16,554	$ 70,215	$ 27,678

4. Business Combinations

On December 17, 2007, Discovery completed its acquisition of HowStuffWorks.com (HSW), an on-line source of explanations of how the world actually works. This acquisition provides an additional platform for Discovery s library of video content and positions its brands as a hub for satisfying curiosity on both television and on-line. The results of operations have been included in the consolidated financial statements since December 17, 2007. The aggregate purchase price was $264.9 million, including $14.9 million of transaction costs. The Company also assumed net working capital of $1.1 million, content of $9.0 million, and deferred tax liabilities of $44.6 million. As of December 31, 2007, $4.6 million of the purchase price has not yet been paid. Of the $269.6 million of acquired intangibles, $95.8 million was ascribed to intangibles subject to amortization with useful lives between two and five years and the balance of $173.8 million to non-tax deductible goodwill. Acquired intangibles include trademarks, customer lists, and other items with weighted average useful lives of 4 years. The Company funded the purchase through additional borrowings under its credit facilities. HSW s content is highly ranked by the world s leading search engines and provides a natural link to the Company s video library. The purchase provides the Company with an expanded platform for content, additional ad sales outlet, and brand enhancement.

As part of the transaction, Discovery acquired approximately 49.5% of HSW International, Inc. (HSWi) outstanding shares, resulting in an investment balance of $79.4 million. Discovery has gained voting rights which are capped at 45% of the outstanding votes, three non-controlling board seats and certain other governance rights. As a result of its noncontrolling interest, the Company has recorded its investment in HSWi under the equity method. Discovery will hold approximately 77% of these shares over a period of at least 12-24 months. Per terms of the agreement, the Company may distribute the HSWi stock or sell and distribute substantially all of the proceeds to former HSW shareholders. The Company initially recorded a liability of $53.7 million at closing, which represents its estimated obligation to the HSW shareholders. The Company has estimated the fair value of its investment and associated liability based upon appraised values, market data and a discounted cash flow analysis using management s best judgments with respect to discount rates and terminal values. The Company will adjust the liability each period to fair value through adjustments to earnings. The valuation considers forecasted operating results and market valuation factors. The estimated liability at December 31, 2007 is unchanged from December 17, 2007. HSWi has a perpetual royalty free license to exploit HSW content in certain foreign markets.

On July 31, 2007, the Company acquired Treehugger.com, an eco-lifestyle website for $10.0 million. As of December 31, 2007, $1.8 million of this purchase price has not yet been paid. The results of operations have been included in the consolidated financial statements since that date. The acquisition furthers the Company s goal of developing original programming related to the environment, sustainable development, conservation and organic living. The Company also has

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

certain contingent considerations in connection with this acquisition payable in the event specific business metrics are achieved totaling up to $6.0 million over 2 years, which could result in the recording of additional goodwill.

Subsequent to the formation of Discovery, the Company acquired an additional 5% interest in Animal Planet L.P. (APLP) from Cox for $37.0 million. This transaction increased the Company s ownership interest in APLP from 80% to 85% and has been recorded as a step acquisition. The $37.0 million has been recorded as brand intangibles of $7.0 million, affiliate relationships of $10.0 million, and goodwill of $17.0 million. The brand intangibles and affiliate relationships will be amortized over 10 years.

The following table summarizes the combined estimated fair values of the assets acquired and the liabilities assumed at the dates of acquisition in 2007 for HSW, Animal Planet additional 5% interest and Treehugger.com. The HSW fair value allocation of assets and liabilities is preliminary because the acquisition closed December 17, 2007 and the fair value determination of assets and liabilities are subject to finalization.

Asset (Liability)		**HSW, Animal Planet and Treehugger, Combined in thousands**
Current assets and content	$	22,399
Investment in HSWi stock		79,375
Other tangible assets		1,313
Finite-lived intangibles (including brand names, customer lists and trademarks)		119,421
Goodwill		196,646
Liabilities assumed		(14,753)
Deferred taxes		(44,585)
Estimated redemption liability to HSW shareholders		(53,722)
Cash paid, net of cash acquired	$	306,094

During February 2006, DCI acquired 98% of DMAX (formerly known as XXP), a free-to-air network in Germany. The results of operations have been included in the consolidated financial statements since that date. The acquisition of a free-to-air network is intended to support strengthening global presence. The aggregate purchase price was $60.2 million primarily in cash. Of the $54.3 million of acquired intangible assets, $23.0 million was assigned to contract-based distribution channels subject to amortization with a useful life of approximately 5 years and the remaining balance of $31.3 million to goodwill. During 2007, Discovery acquired the remaining 2% in conjunction with the return of purchase escrow balances, for a net cash return amount of $8.1 million.

In March 2006, DCI acquired all of the outstanding common shares of Antenna Audio Limited (Antenna), a provider of audio tours and multimedia at museums and cultural attractions around the globe. The results of Antenna s operations have been included in the consolidated financial statements since that date. DCI acquired Antenna to facilitate the expansion of its Travel brand and media content to other platforms. The aggregate purchase price was $64.4 million, primarily in cash. Of the $49.1 million of acquired intangibles, $6.4 million was assigned to assets subject to amortization with useful lives between two and seven years and the balance of $42.7 million to goodwill. Antenna and the Travel Channel had been integrated within a single reporting.

In 2006, DCI also acquired the following four entities for a total cost of $70.4 million, which was paid primarily in cash:

Petfinder.com, a facilitator of pet adoptions and PetsIncredible, a producer and distributor of pet-training videos. During 2007, the former owners earned payment of certain contingent consideration in connection with this acquisition, resulting in the addition of $11.0 million in goodwill.

Clearvue and SVE, Inc., a provider of curriculum-oriented media educational products.

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

Academy123, Inc., a provider of on-line supplemental, educational content focusing largely on mathematics and sciences. In May 2007, Discovery recorded an asset impairment of $20.6 million, including $11.5 million of goodwill, for goodwill and intangible assets established during 2006 related to Academy 123, Inc. The business had not been integrated into the education reporting unit, and management decided to scale back its education business to consumers.

Thinklink, Inc., a provider of formative assessment testing services to schools servicing students in grades K through 12.

Goodwill recognized for these transactions amounted to $27.9 million in 2006. Purchased identifiable intangible assets for these acquisitions are being amortized on a straight-line basis over lives ranging from one to ten years (weighted-average life of 4.4 years).

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the dates of acquisition in 2006.

Asset (Liability)		**DMAX, Antenna and Other Acquisitions, Combined in thousands**
Current assets and content	$	40,365
Other tangible assets		7,765
Finite-lived intangible assets		73,378
Goodwill		101,785
Liabilities assumed		(28,388)
Cash paid, net of cash acquired	$	194,905

5. Discontinued Operations

Following a comprehensive strategic review of its businesses, the Company decided to close its 103 mall based and stand alone Discovery Stores (Retail) in the third quarter of 2007. The Company will continue to leverage its products through retail arrangements and its e-commerce platform. As there is no continuing involvement in the retail stores or significant migration of retail customers to e-commerce, the results of the Retail business are accounted for as discontinued operations in the consolidated financial statements for the periods presented herein, in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment and Disposal of Long-lived Assets (FAS 144).

The following amounts related to Retail have been segregated from continuing operations and included in loss from discontinued operations in the consolidated statements of income:

	Successor	Predecessor		
	May 15 through December 31, 2007	January 1 through May 14, 2007	2006	2005
			in thousands	
Revenue	$ 30,491	$ 27,362	$ 129,317	$ 127,396
Loss from discontinued operations before income taxes	$ (81,115)	$ (18,312)	$ (35,911)	$ (31,652)
Loss from discontinued operations, net of tax	$ (52,490)	$ (12,533)	$ (22,318)	$ (20,568)

No interest expense was allocated to discontinued operations for the periods presented herein since there was no debt specifically attributable to discontinued operations or required to be repaid following the closure of the retail stores. For the Successor period, the loss from discontinued operations includes $31.1 million in lease terminations and other exit costs, $8.8 million for severance and other employee-related costs and $28.3 million in asset impairment charges, along with normal business operations.

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

Summarized balance sheet information for discontinued operations for Retail is as follows:

	December 31, Successor 2007	December 31, Predecessor 2006
	in thousands	
Current assets	$	$ 38,106
Total assets	$	$ 67,707
Current liabilities	$ (6,349)	$ (29,961)
Total liabilities	$ (6,349)	$ (39,339)

6. Content Rights

Content Rights	December 31, Successor 2007	December 31, Predecessor 2006
	in thousands	
Produced content rights		
Completed	$ 1,346,985	$ 1,476,830
In process	195,025	161,942
Co-produced content rights		
Completed	499,127	681,105
In process	53,984	86,359
Licensed content rights		
Acquired	209,082	213,691
Prepaid	21,690	10,386
Content rights, at cost	2,325,893	2,630,313
Accumulated amortization	(1,198,538)	(1,312,365)
Content rights, net	1,127,355	1,317,948
Current portion, licensed content rights	(79,162)	(64,395)
Non-current portion	$ 1,048,193	$ 1,253,553

Amortization of content rights is recorded as a component of cost of revenue and was $558.0 million, $257.0 million, $696.0 million and $601.1 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Amortization of content rights includes incremental amortization for certain programs to net realizable value of $171.7 million, $1.9 million, $40.1 million and $16.6 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The $171.7 million of incremental amortization includes an impairment charge of $129.1 million at U.S. networks, where new programming leadership evaluated the networks programming portfolio assets and identified certain programming which no longer fit the go forward strategy of the networks. The Company wrote off those assets no longer intended for use.

The Company estimates that approximately 96% of unamortized costs of content rights at December 31, 2007 will be amortized within the next three years. The Company expects to amortize $434.3 million of unamortized content rights, not including in-process, not released, and prepaid productions, during the next twelve months.

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

7. Property and Equipment

Property and Equipment	December 31, Successor 2007	Predecessor 2006
	in thousands	
Equipment and software	$ 478,616	$ 411,583
Land	28,781	28,781
Buildings	154,227	153,737
Furniture, fixtures, leasehold improvements and other	151,417	217,884
Assets in progress	14,471	11,833
Property and equipment, at cost	827,512	823,818
Accumulated depreciation and amortization	(430,082)	(399,777)
Property and equipment, net	$ 397,430	$ 424,041

The cost and accumulated depreciation of equipment under capital leases was $53.3 million and $19.8 million, respectively, at December 31, 2007, and $39.7 million and $13.2 million, respectively, at December 31, 2006 respectively. Depreciation and amortization of property and equipment, including equipment under capital lease, was $57.3 million, $40.4 million, $78.4 million and $74.5 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Depreciation and amortization of property and equipment for Retail discontinued operations was $0.1 million, $3.2 million, $10.2 million and $10.4 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively, exclusive of impairment write-downs.

8. Sale of Equity Investments

In April 2006 and January 2005, DCI recorded gains of $1.5 million and $12.8 million, respectively, as a component of other non-operating expenses for the sale of certain investments accounted for under the cost method. The gains represent the difference between the proceeds received and the net book value of the investments.

9. Goodwill and Intangible Assets

Goodwill and Intangible Assets	December 31, Successor 2007	Predecessor 2006
	in thousands	
Goodwill	$ 4,870,187	$ 365,266
Trademarks, net of accumulated amortization of $2,272 and $1,905	$ 62,193	$ 12,322

Customer lists, net of accumulated amortization of $76,919 and $136,049		67,282		26,500
Other, net of accumulated amortization of $77,026 and $55,355		52,181		68,851
Intangibles, net	$	181,656	$	107,673

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

During 2007, changes in the net carrying amount of goodwill were as follows:

Reconciliation of net carrying amount of goodwill	**in thousands**
Balance at January 1, 2007 (Predecessor)	$ 365,266
Impairment (Predecessor) (Note 4)	(11,478)
Translation (Predecessor)	2,047
Push down of investor basis (Successor) (Note 1)	4,591,581
Disposals (Successor) (Note 1)	(280,838)
Acquisitions (Successor) (Note 4)	198,109
Translation (Successor)	5,500
Balance at December 31, 2007 (Successor)	$ 4,870,187

In April 2007, DCI completed a strategic analysis of the Education business and does not expect to generate revenue from the assets acquired from the Academy 123, Inc. acquisition. Goodwill of $11.5 million and intangible assets of $9.1 million were written-off as a component of amortization expense.

Goodwill is not amortized. Trademarks are amortized on a straight-line basis over 3 to 10 years. Customer lists are amortized on a straight-line basis over the estimated useful lives of three to seven years. Non-compete assets are amortized on a straight-line basis over the contractual term of one to seven years. Other intangibles are amortized on a straight-line basis over the estimated useful lives of three to ten years. The weighted-average amortization period for intangible assets is 5.1 years.

Amortization of intangible assets, totaled $22.3 million, $36.7 million, $43.6 million and $38.2 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The Company estimates that unamortized costs of intangible assets at December 31, 2007 will be amortized over the next five years as follows: $52.5 million in 2008, $40.9 million in 2009, $37.2 million in 2010, $20.4 million in 2011, and $12.2 million in 2012.

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

10. Investments

The following table outlines the Company s less than wholly-owned ventures and the method of accounting during 2007:

Affiliates:	**Accounting Method**
Joint Ventures with the BBC:	
JV Programs LLC (JVP)	Consolidated
Joint Venture Network LLC (JVN)	Consolidated
Animal Planet Europe	Consolidated
Animal Planet Latin America	Consolidated
People & Arts Latin America	Consolidated
Animal Planet Asia	Consolidated
Animal Planet Japan	Consolidated
Animal Planet Canada	Equity
Other Ventures:	
Animal Planet United States (see Note 12)	Consolidated
Discovery Canada	Equity
Discovery Japan	Equity
Discovery Health Canada	Equity
Discovery Kids Canada	Equity
Discovery Civilization Canada	Equity
HSWi (See Note 4)	Equity

Joint Ventures with the BBC

The Company and the BBC have formed several cable and satellite television network joint ventures, JVP, a venture to produce and acquire factual-based content, and JVN, a venture to provide debt funding to these joint ventures.

In addition to its own funding requirements, the Company has assumed the BBC funding requirements, giving the Company preferential cash distribution with these ventures. The Company controls substantially all of the BBC ventures and consolidates them accordingly. As the BBC does not have risk of loss, no BBC cumulative losses were allocated to minority interest for consolidated joint ventures with the BBC, and the Company recognizes both its and the BBC s share of cumulative losses in the equity method venture with the BBC. After December 31, 2006, JVP obtained a level of cumulative profitability. Minority interest expense of $4.3 million and $1.1 million for the BBC s share of earnings in JVP was recognized from May 15, 2007 through December 31, 2007 and from January 1, 2007 through May 14, 2007, respectively.

Other Ventures

The Company is a partner in international joint venture cable and satellite television networks. The Company also acquired an equity interest in HSWi stock as a result of its acquisition of HSW. DCI provided no funding to the equity ventures in 2007, 2006 or 2005. At December 31, 2007, the Company s maximum exposure to loss as a result of its involvement with the equity joint ventures is the $47.0 million investment book value and future operating losses, should they occur, of the equity joint ventures that the Company is obligated to fund.

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Notes to Consolidated Financial Statements (Continued)

11. Debt

Debt	December 31, Successor 2007	December 31, Predecessor 2006
	in thousands	
$1,000,000.0 Term Loan A due quarterly December 2008 to October 2010	$ 1,000,000	$ 1,000,000
$1,555,000.0 Revolving Loan, due October 2010	337,500	249,500
260,000.0 Revolving Loan, due April 2009	94,174	187,828
$1,500,000.0 Term Loan B due quarterly September 2007 to May 2014	1,492,500	
8.06% Senior Notes, semi-annual interest, due March 2008	180,000	180,000
7.45% Senior Notes, semi-annual interest, due September 2009	55,000	55,000
8.37% Senior Notes, semi-annual interest, due March 2011	220,000	220,000
8.13% Senior Notes, semi-annual interest, due September 2012	235,000	235,000
Floating Rate Senior Notes, semi-annual interest, due December 2012	90,000	90,000
6.01% Senior Notes, semi-annual interest, due December 2015	390,000	390,000
£10,000.0 Uncommitted Facility, due August 2008	8,785	
Obligations under capital leases	37,172	32,355
Other notes payable	960	1,100
Subtotal	4,141,091	2,640,783
Current portion	(32,006)	(7,546)
Total long-term debt	$ 4,109,085	$ 2,633,237

In May 2007, Discovery entered into a $1,500.0 million, seven year term loan credit agreement. Borrowings under this agreement bear interest at London Interbank Offered Rate (LIBOR) plus an applicable margin of 2.0% or the higher of (a) the Federal Funds Rate plus 1/2 of 1% or (b) prime rate set by Bank of America plus an applicable margin of 1.0%. The company capitalized $4.7 million of deferred financing costs as a result of this transaction. At the end of 2007 there was $1,492.5 million outstanding under the term loan agreement (net of mandatory principal repayments) with a weighted average interest rate of 6.83%. The average interest rate under this credit agreement was 7.44% for the period May 15, 2007 through December 31, 2007.

In September 2007, the Company s United Kingdom subsidiary, Discovery Communications Europe Limited (DCEL) executed a £10 million uncommitted facility to supplement working capital requirements. The facility is available through August 1, 2008 and is guaranteed by Discovery. At December 31, 2007 there was £4.4 million (approximately $8.8 million) outstanding under this facility.

In March 2006, DCEL entered into a 70.0 million three year multicurrency revolving credit agreement (UK credit agreement) which enables the Company to draw Euros and British Pounds. In April 2006, the UK credit agreement was amended and restated to provide for syndication and to increase the revolving commitments to 260.0 million. The Company guarantees DCEL s obligations under the UK credit agreement. Borrowings under this agreement bear interest at LIBOR plus an applicable margin based on the Company s leverage ratios. The cost of the UK credit agreement also includes a fee on the revolving commitments (ranging from 0.1% to 0.3%) based on the Company s leverage ratio. DCEL capitalized £0.7 million (approximately $1.4 million) of deferred financing costs as a result of this transaction. At the end of 2007 there was £47.5 million (approximately U.S. $94.2 million) outstanding under the multicurrency credit agreement with a weighted average interest rate of 6.75%. At the end of 2006 there was £95.9 million (approximately $187.8 million) outstanding under the multicurrency credit agreement with a weighted average interest rate of 5.91%. The interest rate averaged 7.05% and 6.42% from May 15, 2007

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through December 31, 2007 and from January 1, 2007 through May 14, 2007, respectively. The UK credit agreement matures April 2009.

In March 2006 DCI borrowed additional funds under its US Credit Facility (Revolving Loan and Term A) to redeem the maturing $300.0 million Senior Notes. At the end of 2007 there was $1,337.5 million outstanding ($1,000 million Term A and $337.5 million Revolving Loan) under the facility with a weighted average interest rate of 5.61%. The amount available under the facility was $1,214.9 million, net of amounts committed for standby letters of credit of $2.6 million issued. At the end of 2006 there was $1,249.5 million outstanding under the facility with a weighted average interest rate of 6.35%. The amount available under the facility was $1,302.8 million, net of amounts committed for standby letters of credit of $2.7 million issued. The average interest rate under the U.S. Credit Facility was 6.11%, 6.22% and 6.01% from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007 and 2006, respectively. The Company s debt agreements have certain restrictions on the payment of dividends from subsidiaries.

The Company uses derivative instruments to modify its exposure to interest rate fluctuations on its debt. The Term Loans, Revolving Facility, and Senior Notes contain covenants that require the Company to meet certain financial ratios and place restrictions on the payment of dividends, sale of assets, borrowing level, mergers, and purchases of capital stock, assets, and investments.

Future principal payments under the current debt arrangements, excluding obligations under capital leases and other notes payable, are as follows: $266.3 million in 2008, $539.2 million in 2009, $915.0 million in 2010, $235.0 million in 2011, $340.0 million in 2012 and $1,807.5 million thereafter. Of the $266.3 million of principal payments due in 2008, $242.5 million is excluded from the current portion of long-term debt as of December 31, 2007 because the Company has the intent and ability to refinance its obligations on a long-term basis.

Future minimum payments under capital leases are as follows: $9.0 million in 2008 and 2009, $6.8 million in 2010, $6.2 million in 2011, $3.0 million in 2012 and $10.0 million thereafter.

12. Mandatorily Redeemable Interests in Subsidiaries

Mandatorily Redeemable Interests in Subsidiaries	**December 31, Successor 2007**	**December 31, Predecessor 2006**
	in thousands	
Animal Planet LP	$	$ 48,950
People & Arts Latin America and Animal Planet Channel Group	48,721	45,875
Mandatorily redeemable interests in subsidiaries	$ 48,721	$ 94,825

Animal Planet LP

As of December 31, 2006, one of the DCI s stockholders held 44,000 senior preferred partnership units of Animal Planet LP (APLP) that had a redemption value of $44.0 million and carried a rate of return ranging from 8.75% to 13%. Payments were made quarterly and totaled $4.6 million during 2006. APLP s senior preferred partnership units were called by DCI in January 2007 for $44.0 million, plus accrued interest of $0.5 million. At December 31, 2006, DCI recorded this security at the redemption value of $44.0 million plus accrued returns of $5.0 million. Preferred returns were recorded as a component of interest expense based on a constant rate of return of 10.75% through the full term and aggregated $4.7 million in 2006 and 2005. DCI reversed $5.0 million of accrued interest upon exercise of the call.

People & Arts Latin America and Animal Planet Channel Group

The BBC has the right, upon a failure of the People & Arts Latin America or the Animal Planet Channel Group (comprised of Animal Planet Europe, Animal Planet Asia, and Animal Planet Latin America), the Channel Groups, to achieve certain financial performance benchmarks to put its interests back to the Company for a value determined by a specified formula every three years which commenced December 31, 2002. The Company accretes the

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Notes to Consolidated Financial Statements (Continued)

mandatorily redeemable equity in a subsidiary to its estimated redemption value through the applicable redemption date. The redemption value estimate is based on a contractual formula considering the projected results of each network within the channel group.

Based on the Company s calculated performance benchmarks, the Company believes the BBC has the right to put their interests as of December 2005. The BBC has 90 days following an independent valuation of the Channel Groups to exercise their right. During 2006 DCI was notified that the BBC is evaluating whether to execute their rights under the agreement. As of December 31, 2007, the BBC and the Company have commenced to formally assess the performance benchmarks and the BBC s right to put. The Company has accreted to an estimated redemption value of $48.7 million as of December 31, 2007, based on certain estimates and legal interpretations. Changes in these assumptions could materially impact current estimates. Accretion to the redemption value has been recorded as a component of minority interest expense of $1.7 million, $1.1 million, $9.1 million and $34.6 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and 2005, respectively.

13. Commitments and Contingencies

		Year ending December 31,		
Future Minimum Payments	**Leases**	**Content**	**Other**	**Total**
		in thousands		
2008	$ 80,691	$ 269,175	$ 106,187	$ 456,053
2009	65,991	66,616	85,546	218,153
2010	56,518	41,287	71,246	169,051
2011	41,360	40,176	23,852	105,388
2012	35,417	40,667	4,148	80,232
Thereafter	133,741	41,469	400	175,610
Total	$ 413,718	$ 499,390	$ 291,379	$ 1,204,487

Expenses recorded in connection with operating leases, including rent expense, for continuing and discontinued operations were $91.2 million, $53.1 million, $142.5 million and $142.1 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Expenses recorded in connection with operating leases, including rent expense, for discontinued operations were $37.2 million, $8.8 million, $24.0 million and $25.4 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The Company receives contributions from certain landlords to fund leasehold improvements. Such contributions are recorded as deferred rent and amortized as reductions to lease expense over the lease term. Certain of the Company s leases provide for rental rates that increase or decrease over time. The Company recognizes operating lease minimum rentals on a straight-line basis over the lease term. The Company s deferred rent balance was $24.2 million at December 31, 2007 and $37.4 million at December 31, 2006. Approximately $7.0 million of Discovery s deferred rent balance was written off and included in discontinued operations following the closure of the retail stores.

Discovery has certain contingent considerations in connection with the acquisition of Treehugger.com payable in the event specific business metrics are achieved totaling up to $6.0 million over 2 years (see Note 4).

The Company is involved in litigation incidental to the conduct of its business. In addition, the Company is involved in negotiations with organizations holding the rights to music used in the Company s content. As global music rights societies evolve, the Company uses all information available to estimate appropriate obligations. During 2005, DCI analyzed its music rights reserves and recorded a net reduction to cost of revenue of approximately $11.0 million. The Company believes the reserves related to these music rights are adequate and does not expect the outcome of such litigation and negotiations to have a material adverse effect on the Company s results of operations, cash flows, or financial position.

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Notes to Consolidated Financial Statements (Continued)

14. Employee Savings Plans

The Company maintains employee savings plans, defined contribution savings plans and a supplemental deferred compensation plan for certain management employees, together the Savings Plans. The Company contributions to the Savings Plans were \$6.2 million, \$5.5 million, \$9.9 million and \$8.2 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007 in 2006 and in 2005, respectively.

15. Long-term Incentive Plans

In October 2005, DCI established a new long-term incentive plan. At inception of the plan, eligible participants in one of DCI s previously established long-term incentive plans chose to either continue in that plan or to redeem their vested units at the December 31, 2004 valuation and receive partially vested units in the new plan. Substantially all participants in the previously established plan redeemed their vested units and received partially vested units in the new plan. Certain eligible employees were granted new units in the new plan.

Units partially vested in the new plan have vesting similar to units in the previously established plan. New units awarded vest 25% per year. The units in the new plan are indexed to the market price of Class A DHC stock. On August 17, 2007, the Company amended the plan so that each year 25% of the units awarded will expire and the employees will receive a cash payment for the increase in value. Prior to the amendment, units were paid out every two years over an eight year period. The Company has authorized the issuance of up to 31.9 million units under this plan.

Prior to October 2005, DCI maintained two unit-based, long-term incentive plans with substantially similar terms. Units were awarded to eligible employees following their one-year anniversary of hire and vested 25% per year thereafter. Upon exercise, participants received the increase in value from the date of issuance. The value of the units was based on changes in DCI s value utilizing a specified formula of DCI business metrics. The valuation also included a business group specific discount rate and terminal value based on business risk. The intrinsic value for unit appreciation had been recorded as compensation expense over the period the units were outstanding. In August 2005, DCI discontinued one of these plans, which resulted in the full vesting and cash redemption of units at the December 31, 2004 valuation, including a 25% premium on appreciated value.

Upon voluntary termination of employment, the Company distributes the intrinsic value of the participant s vested units, if participants agree to comply with post-employment obligations for one year in order to receive remaining benefits. The Company s cash disbursements under the new plan aggregated \$75.6 million, \$7.8 million and \$0.3 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007 and in 2006, respectively. There were no payments during 2005 related to the new plan. DCI s cash disbursements under the prior plans aggregated \$325.8 million during 2005.

The fair value of the units issued under the new plan has been determined using the Black-Scholes option-pricing model. The expected volatility represents the calculated volatility of the DHC stock price over each of the various contractual terms. As a result of the limited trading history of the DHC stock, this amount for units paid out after two years is determined based on an analysis of DHC s industry peer group over the corresponding periods. The weighted average assumptions used in this option-pricing model were as follows:

	Successor	Predecessor		
Weighted Average Assumptions	**May 15 - December 31, 2007**	**January 1 - May 14, 2007**	**2006**	**2005**
Risk-free interest rate	3.20%	4.72%	4.78%	4.36%
Expected term (years)	1.48	3.87	3.86	4.75
Expected volatility	27.93%	23.78%	27.06%	30.36%
Dividend yield	0%	0%	0%	0%

The weighted average grant date fair values of units granted was $29.65, $18.66, $16.51 and $15.81 from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The weighted average fair value of units outstanding was $11.68 and $6.71 as of December 31, 2007

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Notes to Consolidated Financial Statements (Continued)

and 2006, respectively. Compensation expense in connection with the new plan was $78.5 million, $62.9 million, $39.2 million and $29.1 million from May 15, 2007 through December 13, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Included in the 2005 expense is $12.8 million related to the exchange of the partially vested units which represents the difference between the fair value of the award and the intrinsic value of the award attributable to prior vesting. The accrued fair values of units outstanding under the new plan were $141.6 million and $84.5 million at December 31, 2007 and 2006.

The following table summarizes information about unit transactions (units in millions) for the new plan:

	Successor		Predecessor					
	May 15 - December 31, 2007		January 1 - May 14, 2007		2006		2005	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding at Beginning of period	26.7	$ 16.01	26.3	$ 15.00	24.2	$ 14.82		$
Units exchanged							7.8	12.77
Units granted	6.4	29.65	7.8	18.66	3.5	16.36	16.4	15.81
Units exercised	(1.1)	15.69	(2.3)	14.01	(0.1)	13.12		
Units redeemed/cancelled	(5.2)	15.29	(5.1)	15.82	(1.3)	15.43		
Outstanding at end of period	26.8	19.42	26.7	16.01	26.3	15.00	24.2	14.82
Vested at Period-end	6.6	$ 13.97	6.5	$ 13.84	8.5	$ 13.78	1.6	$ 11.22

The Company classified as a current liability the entire long term incentive plan liability of $141.6 million. At December 31, 2007, there was $137.3 million of unrecognized compensation cost related to unvested units, which the Company expects to recognize over a weighted average period of 2.4 years. The weighted average remaining years of contractual life for outstanding and vested unit awards was 1.48 and 0.75, respectively, for unit awards outstanding as of December 31, 2007. The aggregate intrinsic value of units outstanding at December 31, 2007 and 2006 is $228.0 million and $82.0 million respectively. The vested intrinsic value of outstanding units was $94.2 million and $36.7 million at December 31, 2007 and 2006, respectively.

16. Income Taxes

Domestic and foreign income (loss) before income taxes and discontinued operations is as follows:

	Successor	Predecessor

Income From Continuing Operations Before Taxes	**May 15 - December 31, 2007**	**January 1 - May 14, 2007**	**2006**	**2005**
Domestic	$ 254,772	$ 86,601	$ 444,504	$ 358,065
Foreign	7,733	15,374	(24,629)	(4,450)
Income from continuing operations before taxes	$ 262,505	$ 101,975	$ 419,875	$ 353,615

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Notes to Consolidated Financial Statements (Continued)

Income tax expense from continuing operations for the years ended December 31, 2007, 2006 and 2005 is as follows:

	Successor	Predecessor		
Income Tax Expense	**May 15 - December 31, 2007**	**January 1 - May 14, 2007**	**2006**	**2005**
		in thousands		
Current				
Federal	$ 52,346	$ 20,526	$ 4,591	$ (1,479)
State	7,079	5,064	5,695	(3,205)
Foreign	28,185	16,634	59,879	57,644
Total current income tax provision	87,610	42,224	70,165	52,960
Deferred				
Federal	(65,091)	4,618	114,986	106,182
State	9,879	9,023	3,707	16,298
Foreign	1,989	3,395	(3,637)	(3,851)
Total deferred income tax (benefit) expense	(53,223)	17,036	115,056	118,629
Change in valuation allowance	(9,084)	(7,097)	5,160	1,838
Total income tax expense	$ 25,303	$ 52,163	$ 190,381	$ 173,427

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Notes to Consolidated Financial Statements (Continued)

Components of deferred tax assets and liabilities as of December 31, 2007 and 2006 are as follows:

	December 31			
	Successor 2007		Predecessor 2006	
Deferred Income Tax Assets and Liabilities	**Current**	**Non-current**	**Current**	**Non-current**
	in thousands			
Assets				
Loss carryforwards	$ 21,851	$ 21,145	$ 19,855	$ 27,712
Compensation	58,762	9,489	30,981	15,563
Accrued expenses	11,161	13,232	12,088	14,981
Reserves and allowances	8,613		10,938	
Tax credits				8,574
Derivative financial instruments		6,992		3,141
Investments		13,337		10,445
Depreciation		16,169		
Intangibles		68,293		104,078
Uncertain tax positions		28,089		
Other	4,769	17,024	4,301	20,897
	105,156	193,770	78,163	205,391
Valuation allowance		(10,250)		(26,552)
Total deferred income tax assets	105,156	183,520	78,163	178,839
Liabilities				
Depreciation				(6,164)
Content rights and deferred launch incentives		(156,654)		(200,732)
Foreign currency translation		(5,744)		(12,936)
Unrealized gains on investments		(24,970)		(861)
Other	(1,433)	(6,771)	(2,007)	(4,435)
Total deferred income tax liabilities	(1,433)	(194,139)	(2,007)	(225,128)
Deferred income tax assets (liabilities), net	$ 103,723	$ (10,619)	$ 76,156	$ (46,289)

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Notes to Consolidated Financial Statements (Continued)

Income tax benefit (expense) from continuing operations differs from the amounts computed by applying the U.S. Federal income tax rate of 35.0% as a result of the following:

Reconciliation of Effective Tax Rate from Continuing Operations	Successor May 15 - December 31, 2007	Predecessor January 1 - May 14, 2007	Predecessor Year Ended December 31, 2006	Predecessor Year Ended December 31, 2005
Federal statutory rate	35.0%	35.0%	35.0%	35.0%
Increase (decrease) in tax rate arising from:				
State income taxes, net of Federal benefit	2.4	1.9	1.5	3.2
Foreign income taxes, net of Federal benefit	7.5	12.8	7.7	9.7
Non-taxable gain	(17.9)			
Travel deferred tax liabilities	(20.4)			
Change in US reserve	3.3			
Non-deductible goodwill write-off		3.9		
Domestic production deduction	(1.1)	(1.8)		
Other	0.8	(0.6)	1.1	1.1
Effective income tax rate	9.6%	51.2%	45.3%	49.0%

The disposal of the Travel Business resulted in a gain of $134.7 million for book purposes, but the transaction was not recognized for tax purposes under Internal Revenue Code Sections 355 and 368. The transaction also resulted in a reduction of the Company s deferred tax liabilities related to the Travel Channel of $54.0 million.

As of December 31, 2007, the Company has federal operating loss carryforwards of $93.3 million that begin to expire in 2021 and state operating loss carryforwards of $296.9 million in various state jurisdictions available to offset future taxable income that expire in various amounts through 2025. In 2007, the Company acquired federal operating loss carryforwards of $89.6 million. The state operating loss carryforwards are subject to a valuation allowance of $5.4 million. The change in the valuation allowance from prior year reflects the elimination of fully reserved state operating loss carryforwards upon disposal of the Retail business.

Deferred tax assets are reduced by a valuation allowance relating to the state tax benefits attributable to net operating losses in certain jurisdictions where realizability is not more likely than not.

The Company s ability to utilize foreign tax credits is currently limited by its overall foreign loss under Section 904(f) of the Internal Revenue Code. The Company has no alternative minimum tax credits.

The Company files U.S. federal, state, and foreign income tax returns. With few exceptions, the Company is no longer subject to audit by the Internal Revenue Service (IRS), state tax authorities, or non-U.S. tax authorities for years prior to 2003.

It is reasonably possible that the total amount of unrecognized tax benefits related to tax positions taken (or expected to be taken) on 2005, 2006, and 2007 non-U.S. tax returns could decrease by as much as $32.8 million within the next twelve months as a result of settlement of audit issues and/or payment of uncertain tax liabilities, which could impact the effective tax rate.

The IRS is not currently examining the Company s consolidated federal income tax return. However, some of the Company s joint ventures are under examination for the 2004 tax year. The Company does not expect any significant adjustments.

As a result of the implementation of FIN 48, the Company recognized an increase of $36.3 million in its liability for unrecognized tax benefits, which was offset in part by a corresponding increase of $31.3 million in deferred tax assets. The remaining $5.0 million was accounted for as a reduction to the January 1, 2007 balance of

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retained earnings. A reconciliation of the beginning and ending amount of unrecognized tax benefits (without related interest amounts) is as follows:

Reconciliation of Unrecognized Tax Benefits

Balance at January 1, 2007 (Predecessor)	$ 91,375
Reductions for tax positions of prior years (Predecessor)	(412)
Additions based on tax positions related to the current year (Successor)	11,650
Additions for tax positions of prior years (Successor)	16,830
Reductions for tax positions of prior years (Successor)	(28,674)
Settlements (Successor)	(2,035)
Balance at December 31, 2007 (Successor)	$ 88,734

Included in the balance at December 31, 2007, are $9.5 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

FIN 48 requires uncertain tax positions to be recognized and presented on a gross basis (i.e., without regard to likely offsets for deferred tax assets, deductions, and/or credits that would result from payment of uncertain tax amounts). On a net basis, the balance at December 31, 2007 is $45.2 million (including related interest amounts) after offsetting deferred tax assets, deductions, and/or credits on the Company s tax returns.

The Company s policy is to classify tax interest and penalties related to unrecognized tax benefits as tax expense. Interest expense related to unrecognized tax benefits recognized was approximately $2.1 million, $1.3 million, $0.8 million, and $0.9 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The Company had accrued approximately $6.4 million and $2.3 million of total interest payable in the tax accounts as of December 31, 2007, and 2006, respectively. Additional interest of $0.7 million was accrued upon adoption of FIN 48 in the first quarter of its fiscal year 2007, with a corresponding reduction to retained earnings.

17. Financial Instruments

The Company uses derivative financial instruments to modify its exposure to market risks from changes in interest rates and foreign exchange rates. The Company does not hold or enter into financial instruments for speculative trading purposes.

The Company s interest expense is exposed to movements in short-term interest rates. Derivative instruments, including both fixed to variable and variable to fixed interest rate instruments, are used to modify this exposure. These instruments include swaps and swaptions to modify interest rate exposure. The variable to fixed interest rate instruments have a notional principal amount of $2,270.0 million and $1,025.0 million and have a weighted average interest rate of 4.68% and 5.09% at December 31, 2007 and 2006, respectively. The fixed to variable interest rate agreements have a notional principal amount of $225.0 million and have a weighted average interest rate of 9.65% and 9.86% at December 31, 2007 and 2006, respectively. At December 31, 2007, the Company held an unexercised interest rate swap put with a notional amount of $25.0 million at a fixed rate of 5.44%. As a result of unrealized mark-to-market adjustments, ($10.0) million, $1.4 million, $10.4 million and $29.1 million in gains (losses) on these instruments were recorded from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively.

The fair value of these derivative instruments, which aggregate ($49.6) million and $8.5 million at December 31, 2007 and 2006, respectively, is recorded as a component of long-term liabilities and other current liabilities in the consolidated balance sheets. Changes in the fair value of these derivative instruments are recorded as a component of operating cash flows.

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

Of the total of $2,270.0 million, a notional amount of $1,460.0 million of these derivative instruments are 100% effective cash flow hedges. The value of these hedges at December 31, 2007 was ($32.5) million with changes in the mark-to-market value recorded as a component of other comprehensive income (loss), net of taxes. Should any portion of these instruments become ineffective due to a restructuring in the Company s debt, the monthly changes in fair value would be reported as a component of other income on the Statement of Operations. The Company does not expect any hedge ineffectiveness in the next twelve months.

The foreign exchange instruments used are spot, forward, and option contracts. Additionally, the Company enters into non-designated forward contracts to hedge non-dollar denominated cash flows and foreign currency balances. At December 31, 2007 and 2006, the notional amount of foreign exchange derivative contracts was $174.2 million and $364.1 million, respectively. As a result of unrealized mark-to-market adjustments, ($3.3) million, ($0.9) million, $2.0 million and ($2.3) million in gains (losses) were recognized on these instruments from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The fair value of these derivative instruments is recorded as a component of long-term liabilities and other current liabilities in the consolidated balance sheets. These derivative instruments did not receive hedge accounting treatment.

Fair Value of Financial Instruments

The fair values of cash and cash equivalents, receivables, and accounts payable approximate their carrying values. Marketable equity securities are carried at fair value and fluctuations in fair value are recorded through other comprehensive income (loss). Losses on investments that are other than temporary declines in value are recorded in the statement of operations.

The carrying amount of the Company s borrowings was $4,141.1 million and the fair value was $4,186.7 million at December 31, 2007. The carrying amount of the Company s borrowings was $2,641.0 million and the fair value was $2,702.0 million at December 31, 2006.

The carrying amount of all derivative instruments represents their fair value. The net fair value of the Company s short and long-term derivative instruments is ($51.2) million at December 31, 2007; 4%, 11%, 61%, 23%, and 1% of these derivative instrument contracts will expire in 2008, 2009, 2010, 2011 and thereafter, respectively.

The fair value of derivative contracts was estimated by obtaining interest rate and volatility market data from brokers. As of December 31, 2007, an estimated 100 basis point parallel shift in the interest rate yield curve would change the fair value of the Company s portfolio by approximately $45.2 million.

Credit Concentrations

The Company continually monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments and does not anticipate nonperformance by the counterparties. In addition, the Company limits the amount of investment credit exposure with any one institution.

The Company s trade receivables and investments do not represent a significant concentration of credit risk at December 31, 2007 due to the wide variety of customers and markets in which the Company operates and their dispersion across many geographic areas.

DISCOVERY COMMUNICATIONS HOLDING, LLC

Notes to Consolidated Financial Statements (Continued)

18. Related Party Transactions

The Company identifies related parties as investors in their consolidated subsidiaries, the Company s joint venture partners and equity investments, and the Company s executive management. Transactions with related parties typically result from distribution of networks, production of content, or media uplink services. Gross revenue earned from related parties was $21.3 million, $46.9 million, $90.0 million and $73.7 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Accounts receivable from these entities were $6.5 million and $15.0 million at December 31, 2007 and 2006, respectively. Purchases from related parties totaled $54.8 million, $31.8 million, $83.3 million and $71.4 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively; of these purchases, $5.1 million, $3.0 million, $8.4 million and $23.1 million related to capitalized assets from January 1, 2007 through May 14, 2007, May 15, 2007 through December 31, 2007, in 2006 and in 2005 respectively. Amounts payable to these parties totaled $0.6 million and $2.4 million at December 31, 2007 and 2006, respectively.

Appendix B

Execution Copy

TRANSACTION AGREEMENT
by and among
DISCOVERY HOLDING COMPANY,
DISCOVERY COMMUNICATIONS, INC.,
DHC MERGER SUB, INC.,
ADVANCE/NEWHOUSE PROGRAMMING PARTNERSHIP,
and with respect to Section 5.14 hereof only
ADVANCE PUBLICATIONS, INC., and
NEWHOUSE BROADCASTING CORPORATION
Dated as of June 4, 2008

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Form of Rights Agreement	Exhibit 2.01(c)(iii)
Merger Agreement	Exhibit 2.03(a)
ANPP Tax Opinion Representations	Exhibit E
DHC Tax Opinion Representations	Exhibit F

TRANSACTION AGREEMENT (this ***Agreement***), dated as of June 4, 2008, by and among Discovery Holding Company, a Delaware corporation ***(DHC)***, Discovery Communications, Inc. a Delaware corporation and Wholly-Owned Subsidiary of DHC ***(New DHC)***, DHC Merger Sub, Inc., a Delaware corporation and Wholly-Owned Subsidiary of New DHC ***(Merger Sub)***, Advance/Newhouse Programming Partnership, a New York general partnership ***(ANPP)***, and with respect to Section 5.14 hereof only, Advance Publications, Inc., a New York corporation ***(API)***, and Newhouse Broadcasting Corporation, a New York corporation ***(NBCo*** and together with API, the ***ANPP Parents)***.

Preliminary Statement

WHEREAS, DHC Beneficially Owns all of the membership interests of Ascent Media Group, LLC, a Delaware limited liability company ***(AMG)***, which, among other things, operates the Audio Business (as defined below);

WHEREAS, the board of directors of DHC (the ***DHC Board***) has deemed it advisable and in the best interest of DHC and its stockholders to effect the AMG Spin-Off (as defined below) pursuant to this Agreement and the Reorganization Agreement (as defined below), and the completion of the AMG Spin-Off is a condition precedent to the transactions contemplated by this Agreement;

WHEREAS, DHC is the Beneficial Owner of 25,200 limited liability company interests (the ***DHC Discovery Shares)*** of Discovery Communications Holding, LLC, a Delaware limited liability company ***(Discovery)***, and ANPP is the owner of 12,600 limited liability company interests (the ***ANPP Discovery Shares***) of Discovery;

WHEREAS, DHC is the Beneficial Owner of limited partnership interests of Animal Planet, L.P., a Delaware limited partnership ***(Animal Planet)***, representing 10% of the outstanding partnership interests of Animal Planet (the ***DHC AP Interests)***, and ANPP is the owner of limited partnership interests of Animal Planet, representing 5% of the outstanding ownership interest of Animal Planet (such interests, the ***ANPP AP Interests*** and, together with the ANPP Discovery Shares, the ***ANPP Contributed Assets***);

WHEREAS, upon the terms and conditions set forth in this Agreement and the other Transaction Documents (as defined below), (i) each of DHC, New DHC and ANPP desire that, immediately following the AMG Spin-Off, ANPP contribute the ANPP Discovery Shares and the ANPP AP Interests to New DHC in exchange for shares of New DHC Preferred Stock (as defined below) as provided herein, and (ii) the DHC Board has deemed it advisable and in the best interest of DHC and its stockholders to, immediately following the contribution described in clause (i) of this recital, merge Merger Sub with and into DHC, which will result in New DHC becoming the new public parent company of Discovery and DHC (as the surviving corporation in the merger with Merger Sub) will become a Wholly-Owned Subsidiary of New DHC and shares of outstanding DHC Common Stock (as defined below) will be converted into shares of New DHC Common Stock (as defined below); and

NOW, THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

Definitions and Usage

Section 1.01. *Definitions*. For purposes of this Agreement, the following terms will have the following meanings:

Affiliate of any specified Person means any other Person directly or indirectly Controlling, Controlled by or under direct or indirect common Control with such specified Person; *provided*, that, for purposes of the foregoing, neither DHC nor ANPP will be an Affiliate of Discovery or of each other.

AMG Spin-Off means the distribution to the holders of record of DHC Common Stock at the close of business on the record date set by the DHC Board, of all the issued and outstanding shares of capital stock of the Spin-Off Company on the terms and conditions described in the Reorganization Agreement.

Animal Planet Limited Partnership Agreement means the Limited Partnership Agreement of Animal Planet L.P., dated as of December 20, 1996, by and among Animal Planet, L.L.C., Liberty Animal Planet, Inc., NBCo and Cox Discovery, Inc., as amended from time to time.

ANPP Tax Opinion Representations means the representations set forth in a letter, which will be executed by ANPP on such date as the DHC Tax Counsel or the ANPP Tax Counsel issues its respective opinion and re-executed as of the Closing Date, to be made by ANPP to the ANPP Tax Counsel and DHC Tax Counsel as a condition to, and in connection with, the issuance of the respective opinions of the ANPP Tax Counsel and DHC Tax Counsel, including representations in form and substance as set forth in Exhibit E to this Agreement (amended as necessary to reflect changes in relevant facts occurring after the date of this Agreement and on or before the execution or re-execution date, as applicable).

Antitrust Division means the Antitrust Division of the United States Department of Justice.

Audio Business means the businesses operated in the United States by AMG and its subsidiaries under the brand names Soundelux, Todd-AO, Sound One, POP Sound, Modern Music, DMG and The Hollywood Edge, substantially all the assets and Liabilities of which as of the date hereof are reflected on the unaudited balance sheet of the Audio Company as of December 31, 2007, and the operating results of which are reflected on the unaudited Audio Business consolidated statement of operations (adjusted) for the period ended December 31, 2007, a copy of each of which is set forth as Schedule 1.01 hereto.

Audio Company means Ascent Media Creative Sound Services, Inc., which following the DHC Restructuring will own all of the businesses, assets, properties and Liabilities comprising the Audio Business.

Beneficial Ownership or *Beneficially Own* has the meaning given to such term in Rule 13d-3 under the Exchange Act; *provided*, *however*, that for purposes of determining Beneficial Ownership, a Person will be deemed to be the Beneficial Owner of any securities which such Person has the right to acquire (whether such right is exercisable immediately or only after the passage of time or occurrence of conditions) pursuant to any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) or upon the exercise of conversion rights, exchange rights, warrants, options, rights or otherwise.

Business Day means any day other than Saturday, Sunday or any day on which banks are required or permitted to close in Denver, Colorado or New York, New York.

Code means the Internal Revenue Code of 1986, as amended.

Communications Act means the Communications Act of 1934, as amended, and the rules, regulations and published orders of the FCC thereunder.

Contracts means all contracts, agreements, commitments and other legally binding arrangements, whether oral or written.

Control means, as used with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by agreement or otherwise, and the terms Controlling , Controlled by , and under common Control with will have correlative meanings.

Current Effective Tax Rate means (i) 8.4%, in the case of amounts received as dividends from a domestic corporation for which the dividends received deduction is allowed under Section 243(a) of the Code, as modified by Section 243(c) of the Code (or any corresponding provision of any successor statute) and (ii) 42%, in all other cases, in each case, subject to adjustment for any calendar year in which the highest federal corporate Tax rate is other than the 35% Tax rate, or the percentage of the dividends received deduction under Section 243(a) of the Code (as modified by Section 243(c) of the Code) is other than the 80% deduction, included in the calculation of the applicable Tax rate above.

Debt means, with respect to any Person at any time, without duplication, (i) all obligations of such Person for borrowed money; (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (iii) all obligations of such Person to pay the deferred purchase price of property or services, except

(x) trade accounts payable that arise in the ordinary course of business and (y) obligations relating to employee benefits or any other compensatory arrangements in favor of any employee; (iv) all obligations of such Person as lessee under capital leases other than capital leases relating to equipment entered into in the ordinary course of business consistent with past practice; (v) all obligations of such Person, which such Person is required to, or may, at the option of any other Person, become obligated to, redeem, repurchase or retire; (vi) all Debt of others secured by a Lien on any asset of such Person; and (vii) all Debt of others guaranteed by such Person.

DHC Common Stock means the DHC Series A Common Stock, the DHC Series B Common Stock and the DHC Series C Common Stock.

DHC Incentive Plans means the Discovery Holding Company 2005 Incentive Plan (As Amended and Restated Effective August 15, 2007), the Discovery Holding Company 2005 Non-Employee Director Plan (As Amended and Restated Effective August 15, 2007) and the Discovery Holding Company Transitional Stock Adjustment Plan (As Amended and Restated Effective August 15, 2007).

DHC Parties means, collectively, DHC, New DHC and Merger Sub.

DHC Plan means each bonus, deferred compensation, incentive compensation, stock purchase, stock option, severance or termination pay, hospitalization, medical, life or other insurance, supplemental unemployment benefits, profit-sharing, pension or retirement plan, program, agreement or arrangement, and each other employee benefit plan, program, agreement or arrangement, sponsored, maintained or contributed to or required to be contributed to at any time since March 9, 2005 by DHC or by any trade or business, whether or not incorporated ***(DHC ERISA Affiliate)***, that together with DHC would be deemed a controlled group within the meaning of Section 4001(a)(14) of ERISA, for the benefit of any employee, director or former employee or director of DHC or any DHC ERISA Affiliate including any such type of plan established, maintained or contributed to under the laws of any foreign country; *provided*, *however*, that DHC Plan will not include any such plan or arrangement maintained by (i) Discovery or any Subsidiary of Discovery, (ii) the Spin-Off Company or any Subsidiary of the Spin-Off Company, or (iii) the Audio Company or any Subsidiary of the Audio Company.

DHC Restructuring means the restructuring effected by DHC and its Subsidiaries pursuant to the steps set forth on Schedule 1.02 hereto.

DHC Rights Agreement means the Rights Agreement, dated as of July 18, 2005, between DHC and Computershare Trust Company, N.A., as Rights Agent.

DHC Series A Common Stock means the Series A Common Stock, par value $0.01 per share, of DHC (including the DHC Series A Right attached thereto).

DHC Series B Common Stock means the Series B Common Stock, par value $0.01 per share, of DHC (including the DHC Series B Right attached thereto).

DHC Series C Common Stock means the Series C Common Stock, par value $0.01 per share, of DHC (including the DHC Series C Right attached thereto).

DHC Series A Right has the meaning ascribed to it in the DHC Rights Agreement.

DHC Series B Right has the meaning ascribed to it in the DHC Rights Agreement.

DHC Series C Right has the meaning ascribed to it in the DHC Rights Agreement.

DHC Tax Opinion Representations means the representations set forth in a letter, which will be executed by DHC on such date as the DHC Tax Counsel or the ANPP Tax Counsel issues its respective opinion and re-executed as of the Closing Date, to be made by DHC to the DHC Tax Counsel and ANPP Tax Counsel as a condition to, and in connection with, the issuance of the respective opinions of the DHC Tax Counsel and the ANPP Tax Counsel, including representations in form and substance as set forth in Exhibit F to this Agreement (amended as necessary to reflect changes in relevant facts occurring after the date of this Agreement and on or before the execution or re-execution date, as applicable).

Discovery Limited Liability Company Agreement means the Amended and Restated Limited Liability Company Agreement of Discovery Communications Holding, LLC, dated as of May 14, 2007, by and among ANPP, LMC Discovery, Inc. and John S. Hendricks.

DGCL means the Delaware General Corporation Law, as amended from time to time.

Escrow means the escrow account established pursuant to the Escrow Agreement.

Escrow Agent means an entity mutually agreeable to New DHC and ANPP to serve as escrow agent under the Escrow Agreement.

Escrow Agreement means the agreement between New DHC and ANPP in substantially the form of Exhibit A (subject to any reasonable changes requested by the Escrow Agent), pursuant to which, among other matters, ANPP and New DHC will establish the Escrow pursuant to the terms and conditions set forth in Section 2.05.

Exchange Act means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

Fair Market Value means with respect to a share of any series of New DHC Common Stock on any day, the last sale price (or, if no last sale price is reported, the average of the high bid and low asked prices) for a share of the applicable series of New DHC Common Stock on such day (or if such day is not a trading day, the next trading day) as reported on the Nasdaq Stock Market, Inc. or if such shares are not then listed on the Nasdaq Stock Market, Inc., as reported on the consolidated transaction reporting system for the principal national securities exchange on which shares of the applicable series of New DHC Common Stock are listed on such day; provided, that, if for any day the Fair Market Value of a share of the applicable series of New DHC Common Stock is not determinable by any of the foregoing means, then the Fair Market Value for such day shall be determined in good faith by the board of directors of New DHC or any committee thereof on the basis of such quotations and other considerations as the board or its committee deems appropriate.

FCC means the United States Federal Communications Commission, including a bureau or subdivision thereof acting on delegated authority.

FTC means the United States Federal Trade Commission.

GAAP means generally accepted accounting principles as accepted by the accounting profession in the United States as in effect from time to time, consistently applied.

Governmental Authority means any supranational, national, federal, state or local government, foreign or domestic, or the government of any political subdivision of any of the foregoing, or any entity, authority, agency, ministry, department, board, commission, court or other similar body exercising executive, legislative, judicial, regulatory or administrative authority or functions of or pertaining to government, including any authority or other quasi-governmental entity established by a Governmental Authority to perform any of such functions.

HSR Act means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

Income Tax means all Taxes based on or measured by net income.

Law means any federal, state, local or foreign law, statute or ordinance, common law or any rule, regulation, standard, judgment, order, writ, injunction, decree, arbitration award, agency requirement, license or permit of a Governmental

Authority, including any of the foregoing as they relate to Tax.

Liabilities means any and all debts, liabilities, commitments and obligations, whether or not fixed, contingent or absolute, matured or unmatured, direct or indirect, liquidated or unliquidated, accrued or unaccrued, known or unknown, and whether or not required by GAAP to be reflected in financial statements or disclosed in the notes thereto.

Lien means any lien, mortgage, pledge, security interest, encumbrance or other similar security arrangement which grants to any Person any security interest, including any restriction on the transfer of any asset, any right of first offer, right of first refusal, right of first negotiation or any similar right in favor of any Person, any restriction on the receipt of any income derived from any asset and any limitation or restriction on the right to own, vote, sell or otherwise dispose of any security, but excluding any such restrictions, limitations and other encumbrances for Taxes not yet due and payable.

Loss means any loss, liability, claim, damage or expense (including reasonable legal fees and expenses).

New DHC Common Stock means the New DHC Series A Common Stock, the New DHC Series B Common Stock and the New DHC Series C Common Stock.

New DHC Preferred Stock means the New DHC Series A Preferred Stock and the New DHC Series C Preferred Stock.

New DHC Rights means, collectively, the New DHC Series A Rights, the New DHC Series B Rights and the New DHC Series C Rights.

New DHC Series A Common Stock means the Series A Common Stock, par value $0.01 per share, of New DHC (including, after the Effective Time of the Merger, the New DHC Series A Right attached thereto pursuant to the New DHC Rights Agreement).

New DHC Series B Common Stock means the Series B Common Stock, par value $0.01 per share, of New DHC (including, after the Effective Time of the Merger, the New DHC Series B Right attached thereto pursuant to the New DHC Rights Agreement).

New DHC Series C Common Stock means the Series C Common Stock, par value $0.01 per share, of New DHC (including, after the Effective Time of the Merger, the New DHC Series C Right attached thereto pursuant to the New DHC Rights Agreement).

New DHC Series A Preferred Stock means the Series A Convertible Participating Preferred Stock, par value $0.01 per share, of New DHC (including, after the Effective Time of the Merger, the New DHC Series A Right attached thereto pursuant to the New DHC Rights Agreement).

New DHC Series C Preferred Stock means the Series C Convertible Participating Preferred Stock, par value $0.01 per share, of New DHC (including, after the Effective Time of the Merger, the New DHC Series C Right attached thereto pursuant to the New DHC Rights Agreement).

New DHC Series A Right means a Series A Right (as defined in the New DHC Rights Agreement).

New DHC Series B Right means a Series B Right (as defined in the New DHC Rights Agreement).

New DHC Series C Right means a Series C Right (as defined in the New DHC Rights Agreement).

Permitted Liens means, collectively, (i) all statutory or other liens for taxes or assessments which are not yet due or the validity of which is being contested in good faith by appropriate proceedings, (ii) all mechanics , material men s, carriers , workers and repairers liens, and other similar liens imposed by law, incurred in the ordinary course of business, which allege unpaid amounts that are less than 30 days delinquent or which are being contested in good faith by appropriate proceedings, and (iii) all other Liens which do not materially detract from or materially interfere with the marketability, value or present use of the asset subject thereto or affected thereby.

Person means any individual, firm, corporation, partnership, limited liability company, trust, joint venture, Governmental Authority or other entity.

Registration Rights Agreement means the agreement between New DHC and ANPP relating to the registration of shares of New DHC Common Stock issuable upon conversion of shares of New DHC Preferred Stock, in substantially the form of Exhibit B hereto.

Related Party means any Affiliate of a Person; *provided*, that, for the purposes of this definition only, without limiting the generality of the definition of Affiliate, any Person ***(First Person)*** that directly or indirectly owns and has the right to vote or direct the vote (in the election of directors) of securities of another Person ***(Other Person)*** constituting 25% or more of the outstanding voting power of such Other Person will be deemed to Control such Other Person, so long as no other securityholder of such Other Person directly or indirectly owns and has the right to vote or direct the vote (in the election of directors) of securities of such Other Person constituting a greater percentage of the outstanding voting power that is owned by such First Person in such Other Person.

Retained Subsidiaries means the Subsidiaries of DHC, after giving effect to the DHC Restructuring, other than the Spin-Off Company, the Audio Company and their respective Subsidiaries.

SEC means the United States Securities and Exchange Commission.

Securities Act means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

Reorganization Agreement means the agreement relating to the AMG Spin-Off by and among DHC, AMG and certain of their Subsidiaries, in substantially the form of Exhibit C hereto.

Spin-Off Effective Time has the meaning ascribed to such term in the Reorganization Agreement.

Subsidiary when used with respect to any Person, means any other Person (1) of which (x) in the case of a corporation, at least (A) a majority of the equity and (B) a majority of the voting interests are owned or Controlled, directly or indirectly, by such first Person, by any one or more of its Subsidiaries, or by such first Person and one or more of its Subsidiaries or (y) in the case of any Person other than a corporation, such first Person, one or more of its Subsidiaries, or such first Person and one or more of its Subsidiaries (A) owns a majority of the equity interests thereof and (B) has the power to elect or direct the election of a majority of the members of the governing body thereof or otherwise has Control over such organization or entity; or (2) that is required to be consolidated with such first Person for financial reporting purposes under GAAP; *provided* that, for purposes of this Agreement, unless otherwise specified, prior to the Closing neither Discovery nor any of its Subsidiaries will be deemed to be Subsidiaries of (x) DHC or any of DHC s Subsidiaries or (y) ANPP or any of ANPP s Subsidiaries, whether or not such entities would otherwise be Subsidiaries of DHC or any of DHC s Subsidiaries or ANPP or any of ANPP s Subsidiaries, as applicable, under the foregoing definition.

Tax Return means a report, return or other information required to be supplied to or filed with a Taxing Authority with respect to any Tax including an information return, claim for refund, amended Tax Return or declaration of estimated Tax.

Taxes means (i) all taxes (whether federal, state, local or foreign) based upon or measured by income and any other tax whatsoever, including gross receipts, profits, sales, use, occupation, value added, ad valorem, transfer, franchise, withholding, payroll, employment, excise, or property taxes, and all unclaimed property assessments, together with any interest or penalties imposed with respect thereto and (ii) any obligations under any agreements or arrangements with respect to any Taxes described in clause (i) above.

Taxing Authority means any Governmental Authority having jurisdiction over the assessment, determination, collection or other imposition of Tax.

Tax Sharing Agreement means the agreement among DHC, New DHC, the Spin-Off Company and the other parties thereto, in substantially the form of Exhibit D hereto.

Transaction Documents means this Agreement, the Merger Agreement, the Reorganization Agreement, the Registration Rights Agreement and the Escrow Agreement, collectively.

Transactions means the transactions contemplated by the Transaction Documents.

Unconditional Time means such time prior to the Spin-Off Effective Time as all conditions to each party s obligation to consummate the Transactions have been satisfied or waived, other than the delivery of (v) the certificates specified in Sections 7.02(c) and 7.03(c), (w) the DHC Tax Opinion Representations and the ANPP Tax Opinion Representations, (x) the opinions of ANPP Tax Counsel and DHC Tax Counsel pursuant to Sections 7.02(d) and 7.03(d), respectively, (y) all documents and instruments necessary to effect the ANPP Contribution (including share, limited liability company interest or limited partnership interest certificates, if any, or other instruments evidencing the ANPP Contribution Shares and the ANPP Contributed Assets) and (z) all documents and instruments necessary to effect the Merger (including the Certificate of Merger), each of which have been validly executed by the applicable party.

VWAP means, (i) with respect to the DHC Series A Common Stock or DHC Series B Common Stock, the average of the daily volume weighted average prices of such security over the 5-trading days ending on the trading day immediately preceding the Closing Date or, if applicable, the trading day immediately preceding the first date on which the DHC Series A Common Stock or DHC Series B Common Stock, as applicable, trades regular way on the Nasdaq Global Select Market without the right to receive shares of common stock of the Spin-Off Company, and (ii) with respect to the New DHC Series A Common Stock, New DHC Series B Common Stock, New DHC Series C Common Stock, Series A common stock of the Spin-Off Company or Series B common stock of the Spin-Off Company, the average of the daily volume weighted average prices of such security over the 10-trading days beginning on the day immediately following the Closing.

Wholly-Owned Subsidiary means, as to any Person, a Subsidiary of such Person, 100% of the equity and voting interest in which is owned beneficially or of record, directly and/or indirectly, by such Person.

Section 1.02. Additional Terms. As used in this Agreement, the following terms will have the meanings set forth in the referenced sections of this Agreement:

Term	**Section**
Agreement	Preamble
AMG	Preliminary Statement
Animal Planet	Preliminary Statement
ANPP	Preamble
ANPP AP Interests	Preliminary Statement
ANPP Indemnified Parties	Section 9.01(a)(i)
ANPP Contribution	Section 2.02(a)
ANPP Contributed Assets	Preliminary Statement
ANPP Contribution Shares	Section 2.02(a)
ANPP Discovery Shares	Preliminary Statement
ANPP Escrow Shares	Section 2.02(a)
ANPP Parents	Preamble
ANPP Tax Counsel	Section 7.02(d)
Antitrust Laws	Section 5.05(b)(ii)
API	Preamble
Balance Sheet	Section 3.07(b)
Carryover Director	Section 2.03(d)(ii)
Certificate of Merger	Section 2.03(a)
Closing	Section 2.04
Closing Date	Section 2.04
Closing Documents	Section 5.12(b)
Contribution Effective Time	Section 2.02(a)
Converted Options	Section 2.03(d)(iv)
Converted Series A Option	Section 2.03(d)(i)
Converted Series B Option	Section 2.03(d)(iv)
DHC	Preamble
DHC AP Interests	Preliminary Statement
DHC Board	Preliminary Statement
DHC Bylaws	Section 2.03(e)
DHC Charter	Section 2.03(e)

DHC Discovery Shares	Preliminary Statement
DHC Group	Section 3.15(b)

Term	Section
DHC Indemnified Parties	Section 9.01(b)
DHC Preferred Stock	Section 3.05(a)(i)
DHC SEC Filings	Section 3.07(a)
DHC Stockholder Approval	Section 3.03
DHC Tax Counsel	Section 7.03(d)
Director Series A Option	Section 2.03(d)(ii)
Discovery	Preliminary Statement
Effective Time	Section 2.03(a)
Existing New DHC Common Stock	Section 3.05(c)(i)
Indemnified Party	Section 9.03(a)
Indemnifying Party	Section 9.03(a)
LMC	Section 3.15(b)
LMC Group	Section 3.15(b)
Loss Percentage	Section 9.02
Material Contracts	Section 3.09
Merger	Section 2.03(a)
Merger Agreement	Section 2.03(a)
Merger Sub	Preamble
NBCo	Preamble
New DHC	Preamble
New DHC Bylaws	Section 2.01(c)(ii)
New DHC Charter	Section 2.01(c)(i)
New DHC Rights Agreement	Section 2.01(c)(iii)
Nondisclosure Agreement	Section 5.04
Proxy Statement/Prospectus	Section 5.08(b)
Registration Statement	Section 5.08(b)
Rights Dividend	Section 2.03(c)
Rollover SARs	Section 2.03(d)(iii)
Scheduled Series A Option	Section 2.03(d)(i)
Series A Option	Section 2.03(d)(iii)
Series B Option	Section 2.03(d)(iv)
Series C Option	Section 2.03(d)(i)
Series A SAR	Section 2.03(d)(iii)
Series C SAR	Section 2.03(d)(iii)
Special Meeting	Section 5.08(a)
Spin-Off Company	Section 2.01(a)(i)
Spin-Off Company Series A Option	Section 2.03(d)(i)
Spin-Off Company Series B Option	Section 2.03(d)(iv)
Submission	Section 5.05(b)
Surviving Entity	Section 2.03(a)
Transfer Taxes	Section 5.06(b)
Voting Subsidiary Debt	Section 3.06(a)

ARTICLE II

Transactions and Closing

Upon the terms and subject to the conditions set forth herein, the parties will consummate each of the following transactions.

Section 2.01. *Pre-Closing Restructuring Transactions and AMG Spin-Off*.

(a) After the Unconditional Time, but prior to the Spin-Off Effective Time, DHC will complete the DHC Restructuring such that after the DHC Restructuring:

(i) DHC will be the sole shareholder of an entity (the ***Spin-Off Company***) that owns (x) all of the businesses, assets, properties and Liabilities currently held by AMG, other than the businesses, assets, properties and Liabilities comprising the Audio Business and (y) all cash and cash equivalents held by DHC immediately prior to the Closing (other than, at the sole discretion of DHC, cash held in bank accounts in the name of Audio Company or any of its Subsidiaries); and

(ii) DHC, the Retained Subsidiaries and the Audio Company and its Subsidiaries will hold all of the businesses, assets, properties and Liabilities currently held by DHC, other than those businesses, assets (including all cash and cash equivalents held by DHC immediately prior to the Closing (other than, at the sole discretion of DHC, cash held in bank accounts in the name of Audio Company or any of its Subsidiaries)), properties and Liabilities transferred to the Spin-Off Company.

(b) Following the Unconditional Time and the completion of the DHC Restructuring, but prior to the Contribution Effective Time (as defined below), DHC will take all actions within its control legally required to effect the AMG Spin-Off. The parties agree that, notwithstanding any other provision of this Agreement, DHC and its Subsidiaries, and to the extent applicable, Discovery and its Subsidiaries, are expressly authorized and permitted to take the actions contemplated in Article II.

(c) Prior to the Contribution Effective Time, New DHC will:

(i) cause the Certificate of Incorporation of New DHC ***(New DHC Charter)*** to be restated as set forth in Exhibit 2.01(c)(i) and filed with the Delaware Secretary of State;

(ii) cause the Bylaws ***(New DHC Bylaws)*** of New DHC to be restated as set forth in Exhibit 2.01(c)(ii); and

(iii) execute and deliver to the Computershare Trust Company, N.A., the Rights Agreement between New DHC and the Computershare Trust Company, N.A., in substantially the form of Exhibit 2.01(c)(iii) hereof (the ***New DHC Rights Agreement***).

Section 2.02. *Contributions and Merger*. At the Closing, immediately following the consummation of the AMG Spin-Off, upon the terms and subject to the conditions set forth in this Agreement and in the order set forth below (and otherwise substantially concurrently):

(a) ANPP will contribute, convey, transfer, assign and deliver to New DHC (the ***ANPP Contribution***), free and clear of all Liens, the ANPP Contributed Assets, in exchange for (i) a number of shares of New DHC Series A Preferred Stock equal to one-half of the sum of (x) the aggregate number of shares of New DHC Series A Common Stock to be issued in the Merger and (y) the aggregate number of shares of New DHC Series B Common Stock to be issued in the Merger, (ii) a number of shares of New DHC Series C Preferred Stock equal to one-half of the aggregate number of shares of New DHC Series C Common Stock to be issued in the Merger, (iii) an additional number of shares of New DHC Series A Preferred Stock equal to one-half of the sum of (x) the aggregate number of shares of New DHC Series A Common Stock to which the Series A SARs (as defined below) relate, (y) the aggregate number of shares of New DHC Series A Common Stock issuable upon exercise of the Converted Series A Options (as defined below) and (z) the aggregate number of shares of New DHC Series B Common Stock issuable upon exercise of the Converted Series B Option (as defined below), and (iv) an additional number of shares of New DHC Series C Preferred Stock equal to one-half of the sum of (x) the aggregate number of shares of New DHC Series C Common Stock to which the Series C SARs (as defined below) relate and (y) the aggregate number of shares of New DHC Series C Common Stock issuable upon exercise of the Series C Options (as defined below) (such additional shares of New DHC Preferred Stock referenced in (iii) and (iv) (including any shares of New DHC Common Stock issuable upon conversion of such shares of New DHC Preferred Stock) are referred to collectively as the ***ANPP Escrow Shares***, and together with the other shares of New DHC Preferred Stock referenced in (i) and (ii) are referred to collectively as the ***ANPP Contribution Shares***). The contribution, conveyance, transfer and assignment by ANPP of the ANPP Contributed Assets will be evidenced by duly endorsed in blank limited liability company interest or limited partnership interest certificates, if any, or by instruments of transfer reasonably satisfactory in form and substance to DHC, and the issuance of the ANPP Contribution Shares by New DHC to ANPP will be evidenced by share certificates or by instruments reasonably satisfactory in form and substance to ANPP. The time at which the ANPP Contribution is completed pursuant to this Section 2.02(a) is referred to as the ***Contribution Effective Time***. The ANPP Escrow Shares will be issued by New DHC to ANPP no later than the second Business Day after the number of shares of New DHC Common Stock subject to the Series A SARs, the Converted Series A Options, Converted Series B Options, Series C SARs and Series C Options is determined as provided in Section 2.03(d) below.

(b) DHC, New DHC and Merger Sub will effect the Merger, as described in Section 2.03 below.

Section 2.03. The Merger.

(a) Simultaneously with the execution and delivery of this Agreement, DHC, New DHC and Merger Sub have entered into an Agreement and Plan of Merger, dated the date hereof, a copy of which is attached hereto as Exhibit 2.03(a) (the ***Merger Agreement***). As described in Section 2.02, upon the terms and conditions of the Merger Agreement and immediately following the Contribution Effective Time, Merger Sub will merge (the ***Merger***) with and into DHC in accordance with the provisions of the DGCL, and upon the Effective Time, the separate corporate existence of Merger Sub will cease and DHC will continue as the surviving entity in the Merger (the ***Surviving Entity***). The Effective Time of the Merger (the ***Effective Time***) will be on the date and at the time that the certificate of merger with respect to the Merger, containing the provisions required by, and executed in accordance with Section 251 of the DGCL (the ***Certificate of Merger***), has been accepted for filing by the Delaware Secretary of State, and all other documents required by the DGCL to effectuate the Merger will have been properly executed and filed (or such later date and time as may be specified in the Certificate of Merger); *provided* that, under no circumstances, will the Effective Time of the Merger occur prior to the Spin-Off Effective Time or the Contribution Effective Time.

(b) From and after the Effective Time of the Merger, the Merger will have the effects set forth in the DGCL (including Sections 259, 260 and 261 thereof) and the Merger Agreement, the terms of which are incorporated into this Section 2.03. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time of the Merger, all the properties, rights, privileges, powers and franchises of DHC and Merger Sub will vest in the Surviving Entity, and all debts, liabilities and duties of DHC and Merger Sub will, by operation of law, become the debts, liabilities and duties of the Surviving Entity.

(c) By virtue of the Merger and as more fully described in the Merger Agreement, at the Effective Time of the Merger:

(i) each share of DHC Series A Common Stock outstanding immediately prior to the Effective Time of the Merger (together with the DHC Series A Right attached thereto) will be converted into and represent the right to receive, and will be exchangeable for, 0.50 shares of New DHC Series A Common Stock and 0.50 shares of New DHC Series C Common Stock;

(ii) each share of DHC Series B Common Stock outstanding immediately prior to the Effective Time of the Merger (together with the DHC Series B Right attached thereto) will be converted into and represent the right to receive and will be exchangeable for, 0.50 shares of New DHC Series B Common Stock and 0.50 shares of New DHC Series C

Common Stock;

(iii) each share of DHC Series A Common Stock and DHC Series B Common Stock held in treasury of DHC immediately prior to the Effective Time of the Merger will be canceled and retired without payment of any consideration therefor and without any conversion thereof; and

(iv) each share of common stock of Merger Sub issued and outstanding immediately prior to the Effective Time of the Merger will be converted into one share of the common stock of the Surviving Entity and the shares of common stock of the Surviving Entity so issued in such conversion will constitute the only outstanding shares of capital stock of the Surviving Entity.

Immediately after the Effective Time of the Merger, the board of directors of New DHC will declare a dividend (the ***Rights Dividend***) of preferred share purchase rights pursuant to the New DHC Rights Agreement to holders of New DHC Common Stock of record as of the Effective Time of the Merger and the holders of the New DHC Preferred Stock. The Rights Dividend will consist of one New DHC Series A Right for each share of New DHC Series A Common Stock issued in the Merger, one New DHC Series B Right for each share of New DHC Series B Common Stock issued in the Merger, one New DHC Series C Right for each share of New DHC Series C Common Stock issued in the Merger, one New DHC Series A Right for each share of New DHC Series A Preferred Stock outstanding immediately following the Merger, and one New DHC Series C Right for each share of New DHC Series C Preferred Stock outstanding immediately following the Merger. Notwithstanding anything to the contrary contained herein, in the New DHC Charter or any of the Transaction Documents, ANPP hereby acknowledges and agrees to, and ANPP will not object to, the adoption and entering into by New DHC of the New DHC Rights Agreement, the declaration and distribution of the Rights Dividend and the filing of the Certificates of Designation (in substantially the form attached to the New DHC Rights Agreement) establishing the rights, preferences and designations of the series of preferred stock issuable upon exercise of the applicable New DHC Rights.

(d) Treatment of Options.

(i) At the Effective Time of the Merger, each of the then outstanding stock options, if any, to purchase shares of DHC Series A Common Stock set forth on Schedule 2.03(d) hereto (each, a ***Scheduled Series A Option***) issued by DHC pursuant to the DHC Incentive Plans, will, by virtue of the AMG Spin-Off and the Merger, and without any further action on the part of any holder thereof, be converted into (A) an option (a ***Converted Series A Option***) to purchase shares of New DHC Series A Common Stock in an amount and at an exercise price as determined below, (B) an option (a ***Series C Option***) to purchase shares of New DHC Series C Common Stock in an amount and at an exercise price as determined below, and (C) an option (a ***Spin-Off Company Series A Option***) to purchase shares of Series A common stock of the Spin-Off Company in an amount and at an exercise price as determined below. The exercise price of such Converted Series A Option, Series C Option and Spin-Off Company Series A Option will be equal to the applicable VWAP for the series of common stock subject to such option, *multiplied* by a fraction, the numerator of which is the exercise price of such Scheduled Series A Option and the denominator of which is the VWAP for the DHC Series A Common Stock. The number of shares of New DHC Series A Common Stock, New DHC Series C Common Stock and Series A common stock of the Spin-Off Company subject to the Converted Series A Option, Series C Option and Spin-Off Company Series A Option, as applicable, will be determined so that the aggregate amount by which the Scheduled Series A Option was in-the-money or out-of-the-money, as applicable, immediately prior to the Transactions (determined according to the VWAP for the DHC Series A Common Stock) is preserved immediately following the Transactions (allocating such aggregate in-the-money or out-of-the-money amounts according to the applicable VWAP for the New DHC Series A Common Stock, New DHC Series C Common Stock and Series A common stock of the Spin-Off Company). The terms and conditions of each Converted Series A Option, Series C Option and Spin-Off Company Series A Option, including vesting conditions (which will not be accelerated by the Transactions) and the scheduled expiration date, will otherwise remain as set forth in the Scheduled Series A Option converted into such Converted Series A Option, Series C Option and Spin-Off Company Series A Option. If the foregoing calculation results in a Converted Series A Option, Series C Option or Spin-Off Company Series A Option being exercisable for a fraction of a share of New DHC Series A Common Stock, New DHC Series C Common Stock or Series A common stock of the Spin-Off Company, as applicable, then the number of shares of New DHC Series A Common Stock, New DHC Series C Common Stock or Series A common stock of the Spin-Off Company, as applicable, subject to such option will be rounded down to the nearest whole number of shares, with no cash being payable for such fractional share.

(ii) At the Effective Time of the Merger, each of the then outstanding stock options, if any, to purchase shares of DHC Series A Common Stock (excluding any Scheduled Series A Options and any such options that are, at the option of the holder, exercisable for shares of DHC Series A Common Stock or DHC Series B Common Stock) held by those members of the DHC Board (other than those directors that hold Scheduled Series A Options) as of the date of this Agreement who will be directors of New DHC immediately after the Effective Time of the Merger (each, a ***Director Series A Option*** any such director, and any director that holds a Scheduled Series A Option, a ***Carryover Director***) issued by DHC pursuant to the DHC Incentive Plans, will, by virtue of the AMG Spin-Off and the Merger, and without any further action on the part of any holder thereof, be converted into (A) a Converted Series A Option to purchase shares of New DHC Series A Common Stock in an amount and at an exercise price as determined below, and (B) a Series C Option to purchase shares of New DHC Series C Common Stock in an amount and at an exercise price as determined below. The exercise price of such Converted Series A Option and Series C Option will be equal to the applicable VWAP for the series of common stock subject to such option, *multiplied* by a fraction, the numerator of which is the exercise price of such Director Series A Option and the denominator of which is the VWAP for the DHC Series A Common Stock. The number of shares of New DHC Series A Common Stock and New DHC Series C Common Stock subject to the Converted Series A Option and Series C Option, as applicable, will be determined so that the aggregate amount by which the Director Series A Option was in-the-money or out-of-the-money , as applicable, immediately prior to the Transactions (determined according to the VWAP for the DHC Series A Common Stock) is preserved immediately following the Transactions (allocating such aggregate in-the-money or out-of-the-money amounts according to the applicable VWAP for the New DHC Series A Common Stock and New DHC Series C Common Stock). The terms and conditions of each Converted Series A Option and Series C Option, including vesting conditions (which will not be accelerated by the Transactions) and the scheduled expiration date, will otherwise remain as set forth in the Director Series A Option converted into such Converted Series A Option and Series C Option. If the foregoing calculation results in a Converted Series A Option or a Series C Option being exercisable for a fraction of a share of New DHC Series A Common Stock or New DHC Series C Common Stock, as applicable, then the number of shares of New DHC Series A Common Stock or New DHC Series C Common Stock, as applicable, subject to such option will be rounded down to the nearest whole number of shares, with no cash being payable for such fractional share.

(iii) At the Effective Time of the Merger, each of the then outstanding stock options, if any, to purchase shares of DHC Series A Common Stock other than the Director Series A Options and the Scheduled Series A Options (each, a ***Series A Option***) issued by DHC pursuant to the DHC Incentive Plans, will, by virtue of the AMG Spin-Off and the Merger, and without any further action on the part of any holder thereof, be converted into (A) a stock appreciation right (a ***Series A SAR)*** with respect to that number of shares of New DHC Series A Common Stock and at such base price as determined below, and (B) a stock appreciation right (a ***Series C SAR*** and, together with the Series A SARs, the ***Rollover SARs***) with respect to that number of shares of New DHC Series C Common Stock and at such base price as determined below. The base price of each Series A SAR and Series C SAR will be equal to the applicable VWAP for the series of common stock subject to such Rollover SAR, *multiplied* by a fraction, the numerator of which is the exercise price of such Series A Option and the denominator of which is the VWAP for the DHC Series A Common Stock. The number of shares of New DHC Series A Common Stock and New DHC Series C Common Stock to which the Series A SAR and Series C SAR, as applicable, relate will be determined so that the aggregate amount by which the Series A Option was in-the-money or out-of-the-money , as applicable, immediately prior to the Transactions (determined according to the VWAP for the DHC Series A Common Stock) is preserved immediately following the Transactions (allocating such aggregate in-the-money or out-of-the-money amounts according to the applicable VWAP for the New DHC Series A Common Stock and New DHC Series C Common Stock). The terms and conditions of each Series A SAR and Series C SAR, including vesting conditions (which will not be accelerated by the Transactions) and the scheduled expiration date, will otherwise remain as set forth in the Series A Option converted into such Series A SARs and Series C SARs, except, that, the spread between the Fair Market Value of the underlying shares and the base price of each Series A SAR and Series C SAR will be payable solely in shares of New DHC Series A Common Stock or New DHC Series C Common Stock, as applicable (with such shares of New DHC Common Stock valued at the Fair Market Value of shares of New DHC Series A Common Stock or New DHC Series C Common Stock, as applicable, on the date of exercise). If the foregoing calculation results in a Series A SAR or a Series C SAR being exercisable for a fraction of a share of New DHC Series A Common Stock or New DHC Series C Common Stock, as applicable, then the number of shares of New DHC

Series A Common Stock or New DHC Series C Common Stock, as applicable, subject to such SAR will be rounded down to the nearest whole number of shares, with no cash being payable for such fractional share.

(iv) At the Effective Time of the Merger, each of the then outstanding stock options, if any, to purchase shares of DHC Series B Common Stock (including any such options that are, at the option of the holder, exercisable for shares of DHC Series B Common Stock or DHC Series A Common Stock) held by any Carryover Director (each, a ***Series B Option***) issued by DHC pursuant to the DHC Incentive Plans, will, by virtue of the AMG Spin-Off and the Merger, and without any further action on the part of any holder thereof, be converted into (A) an option (a ***Converted Series B Option*** and, together with the Converted Series A Options and Series C Options, the ***Converted Options***) to purchase shares of New DHC Series B Common Stock in an amount and at an exercise price as determined below, (B) a Series C Option to purchase shares of New DHC Series C Common stock in an amount and at an exercise price as determined below, and (C) an option (a ***Spin-Off Company Series B Option***) to purchase shares of Series B common stock of the Spin-Off Company in an amount and at an exercise price as determined below. The exercise price of such Converted Series B Option, Series C Option and Spin-Off Company Series B Option will be equal to the applicable VWAP for the series of common stock subject to such option, *multiplied* by a fraction, the numerator of which is the exercise price of the Series B Option and the denominator of which is the VWAP for the DHC Series B Common Stock. The number of shares of New DHC Series B Common Stock, New DHC Series C Common Stock and Series B common stock of the Spin-Off Company subject to the Converted Series B Option, Series C Option and Spin-Off Company Series B Option, as applicable, will be determined so that the aggregate amount by which the Series B Option was in-the-money or out-of-the-money , as applicable, immediately prior to the Transactions (determined according to the VWAP for the DHC Series B Common Stock) is preserved immediately following the Transactions (allocating such aggregate in-the-money or out-of-the-money amounts according to the applicable VWAP for the New DHC Series B Common Stock, New DHC Series C Common Stock and Series B common stock of the Spin-Off Company). The terms and conditions of each Converted Series B Option, Series C Option and Spin-Off Company Series B Option, including vesting conditions (which will not be accelerated by the Transactions) and the scheduled expiration date, will otherwise remain as set forth in the Series B Option converted into such Converted Series B Option, Series C Option and Spin-Off Company Series B Option. If the foregoing calculation results in a Converted Series B Option, a Series C Option or a Spin-Off Company Series B Option being exercisable for a fraction of a share of New DHC Series B Common Stock, New DHC Series C Common Stock or Series B common stock of the Spin-Off Company, as applicable, then the number of shares of New DHC Series B Common Stock, New DHC Series C Common Stock or Series B common stock of the Spin-Off Company, as applicable, subject to such option will be rounded down to the nearest whole number of shares, with no cash being payable for such fractional share.

(v) Notwithstanding the foregoing, DHC may, in its sole discretion, cancel any or all outstanding Director Series A Options, Scheduled Series A Options, Series A Options or Series B Options prior to or as of the Effective Time of the Merger for such cash or other consideration as may be determined to be appropriate by the DHC Board.

(e) At the Effective Time of the Merger, the Amended and Restated Certificate of Incorporation of DHC (the ***DHC Charter)*** will be amended pursuant to the Certificate of Merger to be identical to the Certificate of Incorporation of Merger Sub in effect immediately prior to the Effective Time of the Merger, except that Article FIRST thereof will read as follows: The name of the Corporation (which is hereinafter called the Corporation) is Discovery Holding Company . Such DHC Charter as so amended will be the Certificate of Incorporation of the Surviving Entity until thereafter duly amended or restated in accordance with the terms thereof and the DGCL. At the Effective Time, the Restated Bylaws of DHC (the ***DHC Bylaws)*** will be amended to be identical to the bylaws of Merger Sub in effect immediately prior to the Effective Time and, in such amended form, will be the Bylaws of the Surviving Entity until thereafter duly amended or restated in accordance with the terms thereof, the terms of the Certificate of Incorporation of the Surviving Entity and the DGCL.

(f) As provided in the Merger Agreement, as of and following the Effective Time of the Merger, until their successors are duly elected or appointed in accordance with the New DHC Charter and the New DHC Bylaws, the directors, executive officers and certain other officers of New DHC will be as set forth on <u>Schedule 2.03(f)</u>.

Section 2.04. *Closing Date*. Subject to the satisfaction of the conditions set forth in Article VII hereof and the Unconditional Time having occurred (or the waiver thereof by the party entitled to waive that condition), the closing of the AMG Spin-Off, the ANPP Contribution and the Merger (the ***Closing***) will take place at the offices of Baker Botts L.L.P., 30 Rockefeller Plaza, New York, New York 10012, immediately following the Unconditional Time in the order specified in Sections 2.01 and 2.02, which will be no later than on the second Business Day following the Unconditional Time, or at such other place, time and date as the parties hereto may agree. The date on which the Closing will occur is referred to in this Agreement as the ***Closing Date*** .

Section 2.05. *ANPP Escrow Shares*.

(a) Immediately following the issuance by New DHC of the ANPP Escrow Shares to ANPP pursuant to Section 2.02 hereof, ANPP will deliver the ANPP Escrow Shares to the Escrow Agent pursuant to the Escrow Agreement. The ANPP Escrow Shares, and, except as otherwise provided herein or in the Escrow Agreement, all dividends and distributions made or paid thereon and all income and property resulting therefrom, will be held by the Escrow Agent in Escrow and be subject to the terms of the Escrow Agreement and this Agreement, subject to release as described in the Escrow Agreement. Except as provided in the Escrow Agreement, all of the costs, fees and expenses of the Escrow Agent, and all other costs, fees and expenses arising under the Escrow Agreement, will be borne by New DHC.

(b) All voting rights with respect to any of the ANPP Escrow Shares may be exercised by ANPP, and the Escrow Agent will from time to time execute and deliver to ANPP such proxies, consents, or other documents as may be necessary to enable ANPP to exercise such rights.

ARTICLE III

Representations and Warranties of DHC

DHC hereby represents and warrants to ANPP as follows:

Section 3.01. *Organization and Standing*. Each DHC Party and Retained Subsidiary is duly organized or formed, validly existing and in good standing under the laws of its respective jurisdiction of organization or formation and has all requisite corporate or similar power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted and is qualified to do business and is in good standing as a foreign corporation or other legal entity in each jurisdiction where the ownership, leasing or operation of its assets or properties or conduct of its business requires such qualification, except where failure to be so qualified or in good standing would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business and operations of DHC and the Retained Subsidiaries, taken as a whole.

Section 3.02. *Power and Authority; Execution and Delivery; Enforceability*. Each DHC Party has all requisite corporate power and authority to enter into and deliver this Agreement, the other Transaction Documents to which it is a party and each other agreement, instrument or other document to be executed and delivered by it in connection with this Agreement and the Transactions, to consummate the Transactions and to perform and comply with all the terms and conditions of each Transaction Document to which it is a party. The execution, delivery and, subject to receipt of the DHC Stockholder Approval, performance of this Agreement by each DHC Party and the consummation by the DHC Parties of the Transactions, including the execution, delivery and performance of the other Transaction Documents to which it is a party and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement by such DHC Party and the consummation of the Transactions, have been duly authorized by all necessary action on the part of each DHC Party. This Agreement has been duly executed and delivered by each DHC Party and constitutes the legal, valid and binding obligation of each DHC Party, enforceable against each DHC Party in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to or affecting creditors rights generally, including the effect of statutory and other Laws regarding fraudulent conveyances and preferential transfers and subject to the limitations imposed by general equitable principles (regardless of whether such enforceability is considered in a proceeding at law or in equity). When executed and delivered in accordance with and pursuant to this Agreement, each other Transaction Document and the other agreements, documents, certificates and instruments to be executed and delivered by a DHC Party in connection with this Agreement and the Transactions will have been duly executed and delivered by such DHC Party thereto and will constitute the legal, valid and binding obligation of such DHC Party, enforceable against it in accordance with their respective terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to or affecting creditors rights generally, including the effect of statutory and other Laws regarding fraudulent conveyances and preferential transfers and subject to the limitations imposed by general equitable principles (regardless of whether such enforceability is considered in a proceeding at law or in equity).

Section 3.03. *Board and Stockholder Approval*. The DHC Board, at a meeting duly called and held, has duly determined that the Transaction Documents and the Transactions are advisable, fair to and in the best interests of DHC and its stockholders. The only vote of stockholders of DHC required under the DGCL, the DHC Charter, DHC s Bylaws and the rules and regulations of the Nasdaq Global Select Market in order for DHC to validly perform its obligations under this Agreement is the affirmative vote of a majority of the aggregate voting power of the issued and outstanding shares of DHC Common Stock voting together as a single class, and no other vote or approval of or other action by the holders of any capital stock or other securities of DHC is required thereby (the ***DHC Stockholder Approval***).

Section 3.04. *No Conflicts; Consents*. Except as set forth on Schedule 3.04, none of the execution, delivery and performance by each DHC Party of this Agreement, the execution, delivery and performance by each DHC Party of each other Transaction Document to which it is a party and the other agreements, documents and instruments to be executed and delivered by each of them in connection with the Transactions, nor the consummation of the Transactions, will:

(a) conflict with, or result in a breach of, the organizational documents of any DHC Party;

(b) conflict with, violate, result in a breach of, terminate, constitute a default (or an event that, with the giving of notice, the passage of time or otherwise, would constitute a default) under, or require any action, consent, waiver or approval of any Person pursuant to, or give others any rights to modify, amend, accelerate or cancel any term or provision of any material Contract to which DHC or any Retained Subsidiary is a party or pursuant to which any of their respective properties or assets are bound, or result in the creation of any Lien (other than Permitted Liens) upon any of the properties or assets of DHC or any Retained Subsidiary, except, in each case, for any such conflicts, violations, breaches, defaults or occurrences which would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business and operations of DHC and the Retained Subsidiaries, taken as a whole;

(c) assuming the approvals required under Section 3.04(d) are obtained, violate any judgment, order, writ, or injunction, or any decree, or any material Law applicable to DHC or any Retained Subsidiary, or any of their respective properties or assets; or

(d) require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, except for (i) (A) applicable requirements of the Exchange Act, the Securities Act, and state securities or blue sky Laws, (B) the pre-merger notification requirements of the HSR Act, (C) DHC Stockholder Approval and (D) approval of the Transactions under the Communications Act and (ii) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business and operations of DHC and the Retained Subsidiaries, taken as a whole.

Section 3.05. *Capitalization and Continuation of Existence of DHC; New DHC and Merger Sub*.

(a) *Capitalization of DHC*.

(i) The authorized capital stock of DHC consists of (i) 1,250,000,000 shares of common stock, par value $0.01 per share, of which 600,000,000 shares are designated DHC Series A Common Stock, 50,000,000 shares are designated DHC Series B Common Stock and 600,000,000 shares are designated DHC Series C Common Stock and

(ii) 50,000,000 shares of preferred stock of DHC, par value $0.01 per share ***(DHC Preferred Stock)***, of which 600,000 shares are designated Series A Junior Participating Preferred Stock, 50,000 shares are designated Series B Junior Participating Preferred Stock and 600,000 share are designated Series C Junior Participating Preferred Stock.

(ii) As of April 30, 2008, (A) 268,091,082 shares of DHC Series A Common Stock, 13,138,236 shares of DHC Series B Common Stock and no shares of DHC Series C Common Stock (in each case net of shares held in treasury) were issued and outstanding, and (B) no shares of DHC Preferred Stock were issued and outstanding.

(iii) All outstanding shares of DHC Series A Common Stock and DHC Series B Common Stock are duly authorized, validly issued, fully paid and nonassessable and not subject to or issued in violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the DGCL, the DHC Charter or DHC Bylaws or any Contract to which DHC is a party or otherwise bound.

(iv) Other than (i) options to purchase not more than an aggregate of 1,118,703 shares of DHC Series A Common Stock (which excludes options to acquire 1,727,985 shares of DHC Series B Common Stock that can be exercised for an equal number of shares of DHC Series A Common Stock, at the option of the holder) of which options to purchase an aggregate of 285,190 shares consist of Director Series A Options and Scheduled Series A Options held by Carryover Directors, issued pursuant to the DHC Incentive Plans as of April 30, 2008, and (ii) Series B Options to purchase not more than an aggregate of 1,727,985 shares of DHC Series B Common Stock (all of which options can be exercised for an equal number of shares of DHC Series A Common Stock, at the option of the holder) held by Carryover Directors issued pursuant to the DHC Incentive Plans as of April 30, 2008, except in connection with this Agreement and the Transactions and other than as set forth on Schedule 3.05(a), as of April 30, 2008, there were not any options, warrants, rights, convertible or exchangeable securities, phantom stock rights, stock appreciation rights, stock-based performance units, redemption rights, repurchase rights, calls, commitments, Contracts or undertakings of any kind to which DHC is a party or by which DHC is bound (x) obligating DHC to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other equity interests in, or any security convertible or exercisable for or exchangeable into any capital stock of or other equity interest in, DHC, (y) obligating DHC to issue, grant, extend or enter into any such option, warrant, call, right, security, commitment, Contract, arrangement or undertaking or (z) that give any Person the right to receive any economic benefit or right similar to or derived from the economic benefits and rights accruing to holders of DHC Common Stock.

(b) *Continuation of Corporate Existence of DHC.* There is no plan or intention to liquidate, merge or dissolve DHC after the Merger.

(c) *Capitalization of New DHC*.

(i) As of the date hereof, the authorized capital stock of New DHC consists of 10,000 shares of Common Stock, par value US $0.01 per share *(* ***Existing New DHC Common Stock*** *).* As of the date hereof (A) there are no issued or outstanding shares of Existing New DHC Common Stock other than 1,000 shares of Existing New DHC Common Stock held, beneficially and of record, by DHC, (B) there are no securities of New DHC convertible into or exchangeable for shares of capital stock or voting securities of New DHC and (C) other than as set forth on Schedule 3.05(c), there are no options or other rights to acquire from New DHC, and no obligations of New DHC to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of New DHC, other than, in the case of (B) and (C), as provided in this Agreement and the other Transaction Documents.

(ii) Immediately prior to the Closing, the total authorized shares of capital stock of New DHC will consist solely of the shares designated by the New DHC Charter and (A) there will be no issued or outstanding shares of capital stock or other securities or ownership interests of New DHC other than 1,000 shares of New DHC Series A Common Stock held, beneficially and of record, by DHC, (B) there will be no securities of New DHC convertible into or exchangeable for shares of capital stock or voting securities of New DHC and (C) there will be no options or other rights to acquire from New DHC, and no obligations of New DHC to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of New DHC, other than, in the case of (B) and (C), as provided in this Agreement and the other Transaction Documents.

(iii) Prior to the Closing, the shares of New DHC Common Stock and New DHC Preferred Stock to be issued pursuant to this Agreement and the other Transaction Documents will have been duly authorized, and, when issued, will be validly issued, fully paid, nonassessable, free of preemptive rights and free of Liens, other than as a result of the Escrow Agreement, Liens created by the holder thereof and restrictions on transfer under securities Laws of general applicability.

(d) *Capitalization of Merger Sub.* The authorized capital stock of Merger Sub consists of 10,000 shares of Common Stock, par value $0.01 per share, 1,000 of which shares are validly issued and outstanding. All of the issued and outstanding capital stock of Merger Sub is, and at the Effective Time of the Merger will be, owned by New DHC, and there are (i) no other shares of capital stock or voting securities of Merger Sub, (ii) no securities of Merger Sub convertible into or exchangeable for shares of capital stock or voting securities of Merger Sub and (iii) no options or other rights to acquire from Merger Sub, and no obligations of Merger Sub to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of Merger Sub. Merger Sub has not conducted any business prior to the date hereof and has no, and prior to the Effective Time of the Merger will have no, assets, liabilities or obligations of any nature other than those incident to its formation and pursuant to this Agreement and the Merger and the other Transactions.

Section 3.06. *Subsidiaries*.

(a) After giving effect to the DHC Restructuring, Schedule 3.06(a) sets forth, for each Retained Subsidiary, the amount of its authorized capital stock or other ownership interests, the amount of its outstanding capital stock or other ownership interests and the record owners of its outstanding capital stock or other ownership interests. Except as set forth on Schedule 3.06(a), there are no shares of capital stock or other ownership interests in any such Retained Subsidiary issued, reserved for issuance or outstanding. All the outstanding shares of capital stock or other ownership interests of each such Retained Subsidiary have been duly authorized and validly issued and are fully paid and non-assessable and not subject to or issued in violation of any purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of the DGCL, if applicable, the certificate of incorporation, bylaws or other organizational documents of such Retained Subsidiary or any Contract to which such Retained Subsidiary is a party or otherwise bound. There are no bonds, debentures, notes or other indebtedness of any such Retained Subsidiary having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which holders of capital stock or other ownership interests of such Subsidiary may vote (***Voting Subsidiary Debt***).

(b) Except as set forth above and other than as set forth on Schedule 3.06(b), as of the date hereof, there are no options, warrants, rights, convertible or exchangeable securities, phantom stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts or undertakings of any kind to which any such Retained Subsidiary is a party or by which any of them is bound (i) obligating such Retained Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other ownership interests in, or any security convertible into or exercisable or exchangeable for any capital stock of or other ownership interests in, any such Retained Subsidiary or Voting Subsidiary Debt, (ii) obligating such Retained Subsidiary to issue, grant, extend or enter into any such option, warrant, call, right, security, commitment, Contract, arrangement or undertaking or (iii) that give any Person the right to receive any economic benefit or right similar to or derived from the economic benefits and rights accruing to holders of capital stock or other ownership interests of such Retained Subsidiary. As of the date hereof, except as otherwise provided by the DHC Restructuring, there are no outstanding contractual obligations of any such Retained Subsidiary to repurchase, redeem or otherwise acquire any shares of capital stock of such Retained Subsidiary.

(c) DHC Beneficially Owns all of the DHC Discovery Shares and the DHC AP Interests, free and clear of all Liens, other than Liens arising under this Agreement, any Transaction Document, the Discovery Limited Liability Company Agreement or the Animal Planet Limited Partnership Agreement, or Liens arising under securities Laws of general applicability.

(d) Except as otherwise provided herein, and for ownership interests in Discovery, Animal Planet, its Wholly Owned Subsidiaries and the ownership interests set forth on Schedule 3.06(d), as of the date hereof, no Retained Subsidiary owns, directly or indirectly, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any Person.

Section 3.07. *DHC Reports and Financial Statements; Debt and No Undisclosed Material Liabilities*.

(a) DHC has filed on a timely basis all forms, statements, certifications, reports and documents (including exhibits and in each case together with all amendments thereto) with the SEC required to be filed by it under the Securities Act or the Exchange Act since July 21, 2005 (collectively, together with the Form 10, dated July 15, 2005, filed by DHC and other than preliminary material, the ***DHC SEC Filings*** *)*. As of their respective dates, each of the DHC SEC Filings complied in all material respects with the applicable requirements of the Securities Act or the

Exchange Act and the rules and regulations thereunder, and none of the DHC SEC Filings contained as of such date any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. When filed with the SEC, the financial statements of DHC and its consolidated Subsidiaries (including the related notes) included in the DHC SEC Filings complied as to form in all material respects with the applicable requirements of the Securities Act or the Exchange Act and the applicable rules and regulations thereunder and were prepared in accordance with GAAP applied on a consistent basis (except as may be indicated therein or in the schedules thereto), and such financial statements fairly present, in all material respects, the consolidated financial position of DHC and its consolidated Subsidiaries as of the respective dates thereof and the consolidated results of their operations and their consolidated cash flows for the respective periods then ended, subject, in the case of the unaudited interim financial statements, to normal, recurring year-end audit adjustments. Notwithstanding anything herein to the contrary, no DHC Party makes any representation or warranty with respect to information about Discovery or any of its Subsidiaries provided by Discovery for inclusion in the DHC SEC Filing to the extent such information is determined to be false or misleading and, in providing such information to DHC or any of its representatives, Discovery is determined to have been grossly negligent, or guilty of reckless conduct or willful misconduct in the provision of such information.

(b) Other than those Debt items listed on Schedule 3.07(b), as of the date hereof, there are no Debt obligations of DHC or any of the Retained Subsidiaries other than Debt disclosed and provided for in the balance sheet (the ***Balance Sheet***) for DHC included with DHC s Annual Report on Form 10-K for the year ending December 31, 2007, as filed with the SEC on February 15, 2008.

(c) Other than those Liabilities listed on Schedule 3.07(b) and/or Schedule 3.07(c), and except as disclosed in the DHC SEC Filings filed with the SEC, there are no Liabilities of DHC or any of the Retained Subsidiaries other than (i) Liabilities disclosed and provided for in the Balance Sheet, (ii) Liabilities for Income Taxes, (iii) Liabilities for the performance obligations of DHC or any Retained Subsidiary under a Material Contract, (iv) Liabilities incurred in the ordinary course of business consistent with past practice and (v) Liabilities that would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on DHC and the Retained Subsidiaries taken as a whole.

Section 3.08. *Registration Statement; Proxy Statement/Prospectus*. None of the information with respect to DHC or its Subsidiaries which is included or incorporated by reference in, (a) the Registration Statement or any amendment or supplement thereto, will, at the respective times such documents are filed, and, when the same becomes effective, at the time of the Special Meeting or at the Effective Time of the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or (b) the Proxy Statement/Prospectus or any other documents filed or to be filed with the SEC or any other Governmental Authority in connection with the Transactions, will, at the respective times such documents are filed and, in the case of the Proxy Statement/Prospectus and any amendment or supplement thereto, at the time of mailing to stockholders of DHC and at the time of the Special Meeting, in light of the circumstances under which they were made, be false or misleading with respect to any material fact, or omit to state any material fact necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the Special Meeting or the Transactions which has become false or misleading. The Registration Statement and the Proxy Statement/Prospectus and the furnishing thereof by DHC will comply as to form in all material respects with the applicable requirements of the Securities Act, the Exchange Act and the rules and regulations promulgated thereunder.

Section 3.09. *Contracts*. DHC s SEC Filings complied in all material respects with the disclosure requirements of Item 601 of Regulation S-K. Except as set forth on Schedule 3.09, all of the Contracts of DHC disclosed pursuant to Item 601 of Regulation S-K (the ***Material Contracts***) are in full force and effect and are valid and binding agreements of DHC or its Subsidiaries and, to the knowledge of DHC, the other parties thereto, enforceable in accordance with their terms. Except as set forth on Schedule 3.09, to the knowledge of DHC, no party is in default in any material respect under any of the Material Contracts, nor does any condition exist that with notice or the lapse of time or both would constitute such a default. Except for the need to obtain the consents listed on Schedule 3.04 and except as would not have, individually or in the aggregate, a material adverse effect on the business and operations of DHC and the Retained Subsidiaries, taken as a whole, the Transactions will not affect the validity or enforceability of any of the Material Contracts.

Section 3.10. *Absence of Changes or Events*. Since December 31, 2007 (a) there has not been any material adverse change in the business, properties, operations or financial condition of DHC and the Retained Subsidiaries, taken as a whole, and (b) no action has been taken by DHC that, if Section 5.01 of this Agreement had then been in effect, would have been prohibited by such Section without the consent or approval of ANPP, and no Contract to take any such action was entered into during such period.

Section 3.11. *Compliance with Laws*. Neither DHC nor any of the Retained Subsidiaries is in violation of, and DHC and the Retained Subsidiaries have not received any notices of violations with respect to, any material Laws of any Governmental Authority.

Section 3.12. *Litigation*. There are no material claims, actions, suits, investigations or proceedings pending, or, to the knowledge of DHC, threatened against DHC or any of the Retained Subsidiaries before any Governmental Authority.

Section 3.13. *Affiliate and Other Transactions*. Schedule 3.13 sets forth, as of the date hereof, all Contracts (other than any Transaction Documents) and all material allocations, obligations, transactions or other arrangements (oral or written) between (a) DHC or any Retained Subsidiary, on the one hand, and the Spin-Off Company or any of its Subsidiaries, on the other hand, and (b) between DHC or any Retained Subsidiary, on the one hand, and any Related Party of DHC, on the other hand, that, in any case, will be in effect immediately following the Closing.

Section 3.14. *Brokers or Finders*. No agent, broker, investment banker or other firm or person is or will be entitled to receive from DHC or New DHC any broker s or finder s fee or any other commission or similar fee in connection with any of the Transactions.

Section 3.15. *Tax Matters*. Except as to amounts which, individually or in the aggregate, are not material to DHC and the Retained Subsidiaries, taken as a whole:

(a) *Filing, Payment and Compliance.* (i) DHC has timely filed, or has caused to be timely filed (taking into account any extension of time within which to file), all Tax Returns that are required to have been filed by DHC and any of the Retained Subsidiaries, and all such filed Tax Returns are correct and complete in all material respects; (ii) DHC has paid timely, or has caused to be paid timely, all Taxes shown to be due and payable on such Tax Returns; (iii) no deficiency with respect to Taxes has been proposed, asserted or assessed against DHC or any of the Retained Subsidiaries; (iv) no audit or other administrative or court proceedings are pending with any Taxing Authority with respect to Taxes of DHC or any of the Retained Subsidiaries, and no written notice thereof has been received; and (v) DHC has withheld and paid or caused to be withheld and paid all material Taxes required to have been withheld and paid in connection with amounts paid or owing to any employees of DHC or the Retained Subsidiaries.

(b) *Consolidation and Similar Arrangements*; *Tax Sharing Agreements.* Except as set forth on Schedule 3.15(b), DHC (i) has not been a member of an affiliated group (within the meaning of Section 1504 of the Code) filing a consolidated federal income Tax Return, other than (A) an affiliated group the common parent of which is or was Liberty Media Corporation, a Delaware corporation (***LMC***), and (B) an affiliated group the common parent of which is DHC, (ii) has not been a member of any affiliated, combined, consolidated, unitary or similar group for state, local or foreign Tax purposes other than (x) a group (such group, together with the group referenced in (i)(A), collectively, a ***LMC Group***) the common parent of which is or was a member of an affiliated group the common parent of which is or was LMC or (y) a group (such group, together with the group referenced in (i)(B), collectively, a ***DHC Group***) the common parent of which is or was a member of an affiliated group the common parent of which is or was DHC, (iii) is not a party to, and does not have any liability for any Tax under, any Tax sharing agreement other than the Tax Sharing Agreement and the Tax Sharing Agreement between LMC and DHC, dated as of July 20, 2005, or (iv) has no liability for the Taxes of any Person under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local, or foreign Law) or as a transferee or successor, except for such liability arising from membership in the LMC Group or the DHC Group.

(c) The DHC Parties do not have any plan or intention to take any action, or to fail to take any action, which action or omission would be inconsistent with (i) the AMG Spin-Off qualifying as a reorganization under Sections 368(a) and 355 of the Code, (ii) the Merger (in conjunction with the ANPP Contribution) qualifying as a tax-free exchange within the meaning of Section 351 of the Code, or (iii) the ANPP Contribution (in conjunction with the Merger) qualifying as a tax-free exchange with the meaning of Section 351 of the Code.

(d) The DHC Parties do not know of any facts that would cause (i) the AMG Spin-Off to fail to qualify as a reorganization under Sections 368(a) and 355 of the Code, (ii) the Merger (in conjunction with the ANPP Contribution) to fail to qualify as a tax-free exchange within the meaning of Section 351 of the Code or (iii) the ANPP Contribution (in conjunction with the Merger) to fail to qualify as a tax-free exchange within the meaning of Section 351 of the Code.

Section 3.16. *Employee Matters*.

(a) To the knowledge of DHC, each DHC Plan intended to be qualified under Section 401(a) of the Code continues to satisfy the requirements for such qualification.

(b) Each DHC Plan has been maintained and administered in compliance with its terms and with ERISA and the Code to the extent applicable thereto, except for such non-compliance, which would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business and operations of DHC and the Retained Subsidiaries, taken as a whole.

(c) Except with respect to Liabilities of AMG for which the Spin-Off Company is or will be responsible, there has been no event or circumstance that has resulted in any material Liability being asserted by any DHC Plan, the Pension Benefit Guaranty Corporation or any other Person or entity under Title IV of ERISA or Section 412 of the Code against DHC or any DHC ERISA Affiliate.

(d) Except with respect to Liabilities of AMG for which the Spin-Off Company is solely responsible, there is no contract, agreement, plan or arrangement to which DHC or any of the Retained Subsidiaries is a party covering any employee, former employee, officer, director, shareholder or contract worker of DHC or any of the Retained Subsidiaries, which, individually or collectively, may reasonably be expected to give rise to the payment of any amount that would not be deductible pursuant to Section 280G of the Code solely as a result of the Transactions.

Section 3.17. *Takeover Laws*. Prior to the date hereof, the DHC Board has taken all action, if any, necessary to exempt (a) the execution of the Transaction Documents and (b) the Transactions, or make the foregoing actions not subject to (i) any takeover law or law that purports to limit or restrict business combinations or the ability to acquire or vote shares and (ii) the DHC Rights Agreement or any other stockholder rights plan or any similar anti-takeover plan or device.

Section 3.18. *Limitation on Warranties*.

(a) EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, NO DHC PARTY MAKES ANY REPRESENTATION OR WARRANTY TO ANPP, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, WITH RESPECT TO DHC OR ANY SUBSIDIARY OF DHC, INCLUDING WITH RESPECT TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE. ALL REPRESENTATIONS OR WARRANTIES NOT EXPRESSLY SET FORTH IN THIS AGREEMENT ARE HEREBY DISCLAIMED, AND ANPP ACKNOWLEDGES THAT IT IS NOT RELYING ON ANY REPRESENTATION OR WARRANTY OF DHC NOT EXPRESSLY SET FORTH IN THIS AGREEMENT.

(b) Except as expressly provided for in Section 3.06(c) and 3.07, which representations and warranties are made to insure ANPP against any third-party claims based on the material contained in the respective filings referred to in Section 3.07, no DHC Party makes any representation or warranty, express or implied, and under no circumstances will a DHC Party be deemed to have made any representation or warranty, regarding Discovery or any of its Subsidiaries, and, except as expressly provided in Article IX, no DHC Party will be liable to ANPP for any direct or indirect Losses as a result of the business, operations, results of operations, assets, liabilities or properties of Discovery or any of its Subsidiaries (including, with respect to information provided by Discovery regarding the business, operations, results of operations, assets, liabilities or properties of Discovery and its Subsidiaries, to the extent determinations of any DHC Party made pursuant to Section 3.04(d) are based upon such Discovery information).

ARTICLE IV

Representations and Warranties of ANPP

ANPP represents and warrants to the DHC Parties as follows:

Section 4.01. *Organization and Standing*. ANPP is duly organized or formed, validly existing and in good standing under the laws of its jurisdiction of organization or formation and has all requisite corporate or similar power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted and is qualified to do business and is in good standing as a foreign corporation or other legal entity in each jurisdiction where the ownership, leasing or operation of its assets or properties or conduct of its business requires such qualification, except where failure to be so qualified or in good standing would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business and operations of ANPP.

Section 4.02. *Power and Authority; Execution and Delivery; Enforceability*. ANPP has all requisite partnership power and authority to enter into and deliver this Agreement and the other Transaction Documents to which it is a party and each other agreement, instrument or other document to be executed and delivered by it in connection with this Agreement or the Transactions, to consummate the Transactions and to perform and comply with all the terms and conditions of each Transaction Document to which it is a party. The execution, delivery and performance of this Agreement by ANPP and the consummation by ANPP of the Transactions, including the execution, delivery and performance of the other Transaction Documents to which it is a party and the other agreements, documents and instruments to be executed and delivered in connection with this Agreement by ANPP and the consummation of the Transactions, have been duly authorized by all necessary action on the part of ANPP. This Agreement has been duly executed and delivered by ANPP and constitutes the legal, valid and binding obligation of ANPP, enforceable against ANPP in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to or affecting creditors rights generally, including the effect of statutory and other Laws regarding fraudulent conveyances and preferential transfers and subject to the limitations imposed by general equitable principles (regardless of whether such enforceability is considered in a proceeding at law or in equity). When executed and delivered in accordance with and pursuant to this Agreement, each other Transaction Document to which ANPP is a party and the other agreements, documents, certificates and instruments to be executed and delivered by ANPP in connection with this Agreement and the Transactions will have been duly executed and delivered by ANPP and will constitute the legal, valid and binding obligations of ANPP, enforceable against ANPP in accordance with their respective terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to or affecting creditors rights generally, including the effect of statutory and other Laws regarding fraudulent conveyances and preferential transfers and subject to the limitations imposed by general equitable principles (regardless of whether such enforceability is considered in a proceeding at law or in equity).

Section 4.03. *No Conflicts; Consents*. Except as set forth on Schedule 4.03, none of the execution, delivery and performance by ANPP of this Agreement, the execution, delivery and performance by ANPP of each other Transaction Document to which it is a party and the other agreements, documents and instruments to be executed and delivered by it in connection with the Transactions, nor the consummation of the Transactions, will:

(a) conflict with, or result in a breach of, the organizational documents of ANPP;

(b) conflict with, violate, result in a breach of, terminate, constitute a default (or an event that, with the giving of notice, the passage of time or otherwise, would constitute a default) under, or require any action, consent, waiver or approval of any Person pursuant to, or give others any rights to modify, amend, accelerate or cancel any term or provision of any material Contract to which ANPP is a party or pursuant to which any of its assets are bound, or result in the creation of any Lien upon any of the ANPP Contributed Assets, except, in each case, for any such conflicts, violations, breaches, defaults or occurrences which would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the ability of ANPP to consummate the Transactions;

(c) assuming the approvals required under Section 4.03(d) are obtained, violate any judgment, order, writ, or injunction, or any decree, or any material Law applicable to ANPP, or any of its properties or assets, except as would not prevent or materially delay the performance of any Transaction Document by ANPP; or

(d) require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, except for (i) (A) applicable requirements of the Exchange Act, the Securities Act, and state securities or blue sky Laws, (B) the pre-merger notification requirements of the HSR Act, and (C) approval of the Transactions under the Communications Act and (ii) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the ability of ANPP to consummate the Transactions.

Section 4.04. *Ownership of ANPP Contributed Assets; DHC Shares*.

(a) ANPP owns all of the ANPP Discovery Shares and the ANPP AP Interests, free and clear of all Liens, other than Liens arising under this Agreement, any Transaction Document, the Discovery Limited Liability Company Agreement or the Animal Planet Limited Partnership Agreement, or arising under securities Laws of general applicability. Immediately after the ANPP Contribution, New DHC will have good and valid title to all of the ANPP Discovery Shares and the ANPP AP Interests, free and clear of all Liens, other than Liens arising under this Agreement, or any Transaction Document or arising under securities Laws of general applicability or created by New DHC.

(b) None of ANPP, any of its Affiliates or any Related Party of API or NBCo Beneficially Owns, or has any economic interest in, any shares of DHC Common Stock, or has the right to acquire any shares of DHC Common Stock pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, other rights, warrants or options.

Section 4.05. *Registration Statement; Proxy Statement/Prospectus*. None of the information supplied or to be supplied by ANPP, any of its Affiliates or their respective representatives in writing specifically for inclusion or incorporation by reference in, and which is included or incorporated by reference in, (a) the Registration Statement or any amendment or supplement thereto will, at the respective times such documents are filed, and, when the same becomes effective, at the time of the Special Meeting or at the Effective Time of the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or (b) the Proxy Statement/Prospectus and any other documents filed or to be filed with the SEC or any other Governmental Authority in connection with the Transactions, will, at the respective times such documents are filed and, in the case of the Proxy Statement/Prospectus or any amendment or supplement thereto, at the time of mailing to stockholders of DHC and at the time of the Special Meeting, in light of the circumstances under which they were made, be false or misleading with respect to any material fact, or omit to state any material fact necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the Special Meeting or the Transactions which has become false or misleading.

Section 4.06. *Litigation*. There are no claims, actions, suits, investigations or proceedings pending, or, to the knowledge of ANPP, threatened against ANPP or any of its Affiliates before any court, arbitrator or administrative, governmental or regulatory authority or body, domestic or foreign, that, individually or in the aggregate, would, or would reasonably be expected to, have a material adverse effect on the ability of ANPP to consummate the Transactions.

Section 4.07. *Brokers or Finders*. Except as set forth on Schedule 4.07, no agent, broker, investment banker or other firm or person is or will be entitled to receive from any DHC Party or any of their respective Affiliates any broker s or finder s fee or any other commission or similar fee in connection with any of the Transactions.

Section 4.08. *Private Placement and Certain Tax Representations*.

(a) ANPP understands that the issuance of the ANPP Contribution Shares by New DHC pursuant to this Agreement is intended to be exempt from registration under the Securities Act.

(b) ANPP (either alone or together with its advisors) has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the ANPP Contribution Shares and is capable of bearing the economic risks of such investment.

(c) ANPP is acquiring the ANPP Contribution Shares to be acquired hereunder for its own account, for investment and not with a view to the public resale or distribution thereof in violation of any federal, state or foreign securities Law.

(d) ANPP understands that the ANPP Contribution Shares will be issued in a transaction exempt from the registration or qualification requirements of the Securities Act and applicable state securities Laws, and that such securities must be held indefinitely unless a subsequent disposition thereof is registered or qualified under the Securities Act and such Laws or is exempt from such registration or qualification.

(e) ANPP can bear the economic risk of (i) an investment in the ANPP Contribution Shares indefinitely and (ii) a total loss in respect of such investment.

(f) ANPP does not have any plan or intention to take any action, or to fail to take any action, which action or omission would be inconsistent with (i) the ANPP Contribution (in conjunction with the Merger) qualifying as a tax-free exchange within the meaning of Section 351 of the Code or (ii) the Merger (in conjunction with the ANPP Contribution) qualifying as a tax-free exchange within the meaning of Section 351 of the Code.

(g) ANPP does not know of any facts that would cause (i) the ANPP Contribution (in conjunction with the Merger) to fail to qualify as a tax-free exchange within the meaning of Section 351 of the Code or (ii) the Merger (in conjunction with the ANPP Contribution) to fail to qualify as a tax-free exchange within the meaning of Section 351 of the Code.

Section 4.09. *Limitation on Warranties*.

(a) EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, ANPP MAKES NO REPRESENTATION OR WARRANTY TO ANY DHC PARTY, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, WITH RESPECT TO THE ANPP DISCOVERY SHARES, THE ANPP AP INTERESTS, OR ANPP, INCLUDING WITH RESPECT TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE. ALL REPRESENTATIONS OR WARRANTIES NOT EXPRESSLY SET FORTH IN THIS AGREEMENT ARE HEREBY DISCLAIMED, AND EACH DHC PARTY ACKNOWLEDGES THAT IT IS NOT RELYING ON ANY REPRESENTATION OR WARRANTY OF ANPP NOT EXPRESSLY SET FORTH IN THIS AGREEMENT.

(b) Except as expressly provided for in Section 4.04, ANPP makes no representation or warranty, express or implied, and under no circumstances will ANPP be deemed to have made any representation or warranty, regarding Discovery or any of its Subsidiaries, and ANPP will not be liable to any DHC Party for any direct or indirect Losses as a result of the business, operations, results of operations, assets, liabilities or properties of Discovery or any of its Subsidiaries (including, with respect to information provided by Discovery regarding the business, operations, results of operations, assets, liabilities or properties of Discovery and its Subsidiaries, to the extent determinations of ANPP made pursuant to Section 4.03(d) are based upon such Discovery information).

ARTICLE V

Agreements and Covenants

Section 5.01. *Covenants Relating to Conduct of Business*. From the date hereof to the Closing, except for matters (i) set forth in Schedule 5.01, (ii) otherwise expressly permitted by the terms of this Agreement or a Transaction Document or (iii) in connection with the DHC Restructuring:

(a) each DHC Party will, and will cause the Audio Company and its Subsidiaries and each Retained Subsidiary to (i) conduct its business as currently conducted in the usual, regular and ordinary course in substantially the same manner as previously conducted; (ii) not take any action that would reasonably be expected to result in any of the conditions to the Merger and the ANPP Contribution set forth in Article VII not being fulfilled; and (iii) not authorize or enter into any contract, agreement, commitment or arrangement to do any of the foregoing; and

(b) no DHC Party will take any action or fail to take any action, and no DHC Party will permit the Spin-Off Company, the Audio Company or their respective Subsidiaries or the Retained Subsidiaries to take any action or fail to take any action in any case that would reasonably be expected to result in the creation or incurrence of any Liability for which New DHC, DHC, the Audio Company or its Subsidiaries or the Retained Subsidiaries would be liable or otherwise obligated following the Closing which is material to New DHC and its Subsidiaries taken as a whole following the Closing.

Section 5.02. *Access to Information*. Following the date hereof and prior to the Closing, DHC will permit (and will cause the Audio Company and its Subsidiaries and the Retained Subsidiaries to permit) representatives of ANPP to have reasonable access during normal business hours and upon reasonable notice to all premises, properties, personnel, books, records, Contracts, commitments, reports of examination and documents of or pertaining to DHC, the Audio Company or its Subsidiaries or the Retained Subsidiaries as may be reasonably necessary to permit ANPP to, at its sole expense, make, or cause to be made, such investigations thereof as ANPP may reasonably determine necessary in connection with the consummation of the Transactions, and DHC will (and will cause the Audio Company and its Subsidiaries and the Retained Subsidiaries to) reasonably cooperate in good faith with any such investigations; *provided*, *however*, that (A) such access does not unreasonably disrupt the normal operations of DHC, any DHC Party, the Audio Company or its Subsidiaries or any of the Retained Subsidiaries; (B) none of the DHC Parties will be under any obligation to disclose to ANPP any information, the disclosure of which is restricted by Contract or Law, except in strict compliance with the applicable Contract or Law; and (C) none of the DHC Parties are under any obligation to disclose to ANPP any information as to which the attorney-client privilege may be available and where such disclosure would reasonably be expected to cause the loss of such privilege. No information or knowledge obtained in any investigation pursuant to this Section 5.02 or otherwise will affect or be deemed to modify any representation or warranty contained herein or to modify the conditions to the obligations of the parties hereto to consummate the Transactions.

Section 5.03. *No Additional Options*. Following the date hereof and prior to the Closing, without the consent of ANPP, DHC will not issue any additional Series A Options or Series B Options to any Carryover Director.

Section 5.04. *Confidentiality*. ANPP acknowledges that the information regarding DHC and its Subsidiaries being provided to it in connection with the consummation of the Transactions, is intended to be kept confidential, and ANPP will hold such information furnished by the DHC Parties pursuant to Section 5.02 in confidence in accordance with the provisions of the Confidentiality and Nondisclosure Agreement, dated July 9, 2007 (the ***Nondisclosure Agreement***), between AMG and ANPP.

Section 5.05. *Reasonable Best Efforts*. (a) On the terms and subject to the conditions of this Agreement, each party hereto will use reasonable best efforts to take, or to cause to be taken, all actions and to do, or to cause to be done, all things necessary, proper or advisable to satisfy the conditions set forth in Article VII and to consummate the Transactions as promptly as reasonably possible. Each party will cooperate in all reasonable respects with the other parties hereto in assisting such party to comply with this Section 5.05. In the event that after the Closing Date any further action is necessary or desirable to carry out the purposes of this Agreement, the parties to this Agreement will use their reasonable best efforts to take such action and will reasonably cooperate in good faith with the other parties hereto in respect of any such action.

(a) Promptly following the date hereof (and in any event within ten (10) Business Days hereof), (i) ANPP will file with the FTC and the Antitrust Division the notification and report form required pursuant to the HSR Act in connection with the Transactions and a request for early termination of the waiting periods applicable thereto, and (ii) ANPP will make the required filings pursuant to the antitrust laws of any other Governmental Authority that may be applicable (the HSR Act and any applicable antitrust laws of any other Governmental Authority being referred to herein as the ***Antitrust Laws***). ANPP will use reasonable best efforts to take such action as may be required to cause the expiration of the notice periods under, or obtain any clearance required by, the HSR Act or other Antitrust Laws with respect to the Transactions as promptly as practicable. ANPP will keep DHC apprised of any communications with, and inquiries or requests for additional information from, the FTC and the Antitrust Division, or under any other Antitrust Law, ANPP will comply promptly with any such inquiry or request and DHC will provide ANPP with any necessary information and reasonable assistance to comply with any such inquiry or request. Each of DHC and ANPP will use reasonable best efforts to resolve such objections, if any, as may be asserted by any Governmental Authority with respect to the Transactions under the HSR Act, the other Antitrust Laws, the Sherman Antitrust Act of 1890, as amended, the Clayton Antitrust Act of 1914, as amended, the Federal Trade Commission Act of 1914, as amended, and any other United States federal or state or foreign statutes, rules, regulations, orders, decrees, administrative or judicial doctrines or other Laws that are designed to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade; *provided*, *however*, that in order to resolve any such objection or to obtain the consent, approval, waiver or permission of any Governmental Authority in connection with the Transactions, neither DHC nor ANPP nor any of their respective Affiliates or stockholders will be required to (A) divest itself of any part of its Beneficial Ownership of DHC, New DHC, Discovery, Animal Planet or AMG, or interests therein, or any other material assets of such Person; (B) agree to any condition or requirement that would render such Person s ownership of such securities, shares, interests or assets illegal or subject to the imposition of a fine or penalty; (C) agree to any condition or requirement that would impose material restrictions or limitations on such Person s full rights of ownership (including, without limitation, voting) of such securities, shares, interests or assets, or (D) agree to any condition or requirement that would materially restrict its business or operations as currently conducted.

Section 5.06. *Expenses; Transfer Taxes*.

(a) Whether or not the Closing takes place, and except as set forth in Article IX, all costs and expenses incurred in connection with the preparation of the Transaction Documents and the consummation of the Transactions will be paid by the party incurring such costs and expenses, including all costs and expenses incurred pursuant to Section 5.05; *provided* that, after the Closing, New DHC will reimburse ANPP for any filing fees relating to the notification and report form filed pursuant to the HSR Act.

(b) All sales, transfer, filing, recordation, registration and similar Taxes and fees (***Transfer Taxes***) arising from or associated with the Transactions (including, the DHC Restructuring, the Spin-Off, the Merger and the ANPP Contribution), whether levied on DHC, ANPP or their respective Affiliates, will be paid by New DHC. The DHC Parties, on the one hand, or ANPP, on the other hand, whichever is required under applicable Law, will file all necessary documentation with respect to such Transfer Taxes on a timely basis.

Section 5.07. *Publicity*. From the date hereof through the Closing Date, no public release or announcement concerning the Transactions will be issued by DHC or its Affiliates or ANPP or its Affiliates without the prior consent of the other party (which consent will not be unreasonably withheld or delayed), except as such release or announcement may be required by Law or the rules or regulations of any securities exchange on which such party s securities are listed or traded (in which case the party required to make the release or announcement will allow the other party reasonable time to comment on such release or announcement in advance of such issuance); *provided*, *however*, that a party may make internal announcements to its and its Affiliates employees that are consistent with the parties prior public disclosures regarding the Transactions, and AMG and DHC may make announcements and public filings in connection with the AMG Spin-Off.

Section 5.08. *Stockholder Meeting; Registration Statement and Other SEC Filings*.

(a) DHC will, in accordance with applicable Law, the DHC Charter and DHC Bylaws, duly call, give notice of, convene and hold, as soon as reasonably practicable after the date hereof, a meeting of DHC s stockholders for the purpose of considering and voting upon this Agreement (the ***Special Meeting***).

(b) *Proxy Statement/Prospectus and Registration Statement*. As soon as reasonably practicable after the execution of this Agreement, (i) DHC will prepare and file with the SEC a preliminary proxy statement relating to the Special Meeting, and (ii) New DHC will prepare and file with the SEC a Registration Statement on Form S-4 (the ***Registration Statement***) in connection with the registration under the Securities Act of the New DHC Common Stock issuable in the Merger and of the New DHC Common Stock issuable upon exercise of the Rollover SARs and the Converted Options. The proxy statement furnished to DHC s stockholders in connection with the

Special Meeting will be included as part of the prospectus (the ***Proxy Statement/Prospectus***) forming part of the Registration Statement. Each DHC Party will use its reasonable best efforts to respond as promptly as practicable to any comments of the SEC with respect to the preliminary proxy statement, the Proxy Statement/Prospectus or the Registration Statement. The DHC Parties will notify ANPP promptly of the receipt of any comments of the SEC or its staff and of any request by the SEC or its staff or any other governmental officials for amendments or supplements to the preliminary proxy statement, the Proxy Statement/Prospectus, or the Registration Statement, will supply ANPP with copies of all correspondence between any DHC Party and any of their respective representatives, on the one hand, and the SEC or its staff or any other governmental officials, on the other hand, with respect to the preliminary proxy statement, the Proxy Statement/Prospectus or the Registration Statement, and will consult with ANPP prior to responding to any such comments or request or filing any amendment or supplement of the preliminary proxy statement, the Proxy Statement/Prospectus or the Registration Statement. Each DHC Party will use reasonable best efforts to cause the Registration Statement to be declared effective under the Securities Act as soon as reasonably practicable after such filing and to continue to be effective as of the Effective Time of the Merger and to cause the Proxy Statement/Prospectus approved by the SEC to be mailed to DHC s stockholders at the earliest practicable time.

(c) DHC, New DHC and ANPP will cooperate with each other in connection with the preparation and filing of the preliminary proxy statement, the Proxy Statement/Prospectus, the Registration Statement and any other documents to be disseminated to holders of DHC Common Stock, which cooperation will include causing Discovery and its Subsidiaries to provide information to the DHC Parties and any of their respective representatives with respect to Discovery and its Subsidiaries as may be reasonably requested in connection with the preparation and filing of the preliminary proxy statement, the Proxy Statement/Prospectus, the Registration Statement, and the execution and delivery by each of ANPP and DHC, on such date as the ANPP Tax Counsel or the DHC Tax Counsel issues its respective opinion, of the ANPP Tax Opinion Representations or the DHC Tax Opinion Representations, as applicable. Without limiting the generality of the foregoing, ANPP will use its reasonable best efforts to provide information to the DHC Parties and any of their respective representatives with respect to itself as may be reasonably requested in connection with preparation and filing of the preliminary proxy statement, the Proxy Statement/Prospectus and the Registration Statement.

(d) *Nasdaq Listing*. DHC will use its reasonable best efforts to cause the shares of New DHC Common Stock issuable in the Merger (including the shares of New DHC Common Stock reserved for issuance with respect to Rollover SARs and the Converted Options) to be eligible for listing on the Nasdaq Global Select Market prior to the Effective Time of the Merger.

Section 5.09. *Notification of Certain Matters*. Between the date hereof and the Closing Date, each party will give prompt notice in writing to the other party of: (a) any breach of its representations or warranties contained herein, (b) the occurrence or non-occurrence of any event which will result, or is reasonably likely to result, in the failure of any condition set forth in Article VII, any covenant or agreement contained in this Agreement to be complied with or satisfied, (c) any failure of DHC or ANPP, as the case may be, to satisfy any condition or comply with any covenant or agreement to be satisfied or complied with by it hereunder, (d) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the Transactions or that the Transactions otherwise may violate the rights of or confer remedies upon such Person and (e) any notice of, or other communication relating to, any litigation referred to in Section 5.10 or any order or judgment entered or rendered therein; *provided, however*, that the delivery of any notice pursuant to this Section 5.09 will not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

Section 5.10. *Defense of Litigation*. Each of the parties agrees to vigorously defend against all actions, suits or proceedings in which such party is named as a defendant which seek to enjoin, restrain or prohibit the Transactions or any part thereof or seek damages with respect to any such transactions. No party will settle any such action, suit or proceeding or fail to perfect on a timely basis any right to appeal any judgment rendered or order entered against such party therein without the written consent of the other parties (which consent will not be unreasonably withheld or delayed). Each of the parties further agrees to use reasonable best efforts to cause each of its Affiliates, directors and officers to vigorously defend any action, suit or proceeding in which such Affiliate, director or officer is named as a defendant and which seeks any such relief to comply with this Section to the same extent as if such Person were a party hereto.

Section 5.11. _Section 16 Matters_. Prior to the Closing, the DHC Board or a committee of Non-Employee Directors thereof (as such term is defined for purposes of Rule 16b-3(d) under the Exchange Act) and/or the board of directors of New DHC, or a committee of Non-Employee Directors thereof, will adopt a resolution providing that the receipt by each officer or director of DHC or New DHC of New DHC Common Stock in exchange for shares of DHC Common Stock, or shares of New DHC Common Stock upon exercise of Rollover SARs and Convertible Options, in each case pursuant to the Transactions, are intended to be exempt from liability pursuant to Section 16(b) under the Exchange Act such that any such receipt will be so exempt.

Section 5.12. _Transaction Documents_.

(a) Each party hereto agrees to execute or cause the applicable of their respective Subsidiaries to execute, concurrently with the Closing, each of the Transaction Documents, to which it is a party, that has not been executed by such party or its applicable Subsidiaries as of the date of this Agreement.

(b) At such time prior to the Spin-Off Effective Time as all conditions to each party s obligation to consummate the Transactions have been satisfied or waived, other than the delivery of (v) the certificates specified in Sections 7.02(c) and 7.03(c), (w) the DHC Tax Opinion Representations and the ANPP Tax Opinion Representations, (x) the opinions of ANPP Tax Counsel and DHC Tax Counsel pursuant to Sections 7.02(d) and 7.03(d), respectively, (y) all documents and instruments necessary to effect the ANPP Contribution (including share certificates or other instruments evidencing the ANPP Contribution Shares and the ANPP Contributed Assets) and (z) all documents and instruments necessary to effect the Merger (including the Certificate of Merger) (the certificates, opinions, documents, instruments described in clauses (v), (w), (x), (y) and (z) of this Section 5.12(b), the ***Closing Documents***), (i) the applicable parties will execute the Closing Documents, which are to be held in escrow by such applicable parties and released from escrow and delivered to the other parties immediately following the Spin-Off Effective Time, and (ii) each of the parties will execute an instrument acknowledging that all such conditions to each party s obligation to consummate the Transactions have been satisfied or waived.

Section 5.13. _Discovery Matters_. Prior to the Spin-Off Effective Time, ANPP will exercise the Call with respect to the Hendricks Share (as defined in the Discovery Limited Liability Company Agreement) pursuant to the Stock Purchase Agreement, dated as of June 23, 2003, among John S. Hendricks and ANPP, among others, and acquire record ownership of the Hendricks Share pursuant to the terms of such agreement. Prior to the Closing, DHC and ANPP will enter into an agreement terminating the Indemnification Agreement, dated as of June 24, 2005, between DHC and ANPP.

Section 5.14. _ANPP Parents Undertaking_. Each of API and NBCo covenants and agrees (i) to cause ANPP to perform its obligations under this Agreement and the Transaction Documents to which it is a party and to consummate the Transactions in accordance with the terms and subject to the conditions hereof and thereof, and (ii) that it will not take any action, or fail to take any action, that would result in the ANPP Parents not being the Beneficial Owner of the ANPP Contribution Interests as of the Contribution Effective Time. In respect of this Section 5.14 only, each ANPP Parent makes the representations set forth in Section 4.02 as to itself.

Section 5.15. _Tax Covenants_.

(a) Each of ANPP and DHC shall provide the other with a copy of the legal opinion received by each of them from their respective tax counsel in accordance with Sections 7.02(d) and 7.03(d), respectively.

(b) None of the DHC Parties, ANPP or their respective Affiliates will take or permit to be taken any action at any time that is reasonably likely, directly or indirectly, in whole or in part, to (i) jeopardize the receipt of any of the tax opinions contemplated by Sections 7.02(d) and 7.03(d) hereof, or (ii) adversely affect the qualification of (w) the

ANPP Contribution (in conjunction with the Merger) as a tax-free exchange within the meaning of Section 351 of the Code, (x) the AMG Spin-Off as a reorganization under Sections 368(a) and 355 of the Code or (y) the Merger (in conjunction with the ANPP Contribution) as a tax-free exchange within the meaning of Section 351 of the Code.

(c) The DHC Parties, ANPP, and their respective Affiliates will use reasonable best efforts to take or cause to be taken any action reasonably necessary (i) to ensure the receipt of, as well as the continued validity and applicability of, the tax opinions contemplated by Sections 7.02(d) and 7.03(d) hereof and (ii) to preserve the qualification of (w) the ANPP Contribution (in conjunction with the Merger) as a tax-free exchange within the meaning of Section 351 of the Code, (x) the AMG Spin-Off as a reorganization under Sections 368(a) and 355 of the Code and (y) the Merger (in conjunction with the ANPP Contribution) as a tax-free exchange within the meaning of Section 351 of the Code.

(d) The DHC Parties will not adopt any plan to liquidate, merge or dissolve DHC within two years after the Merger.

ARTICLE VI

[Intentionally Omitted]

ARTICLE VII

Conditions Precedent

Section 7.01. *Conditions to Obligations of Each Party*. The respective obligations of each party to this Agreement to consummate the Transactions is subject to the satisfaction at or prior to the Unconditional Time of each of the following conditions, any of which may be waived (to the extent such condition may be waived by such party) in writing:

(a) No Law, and no injunction or other order issued by any court or other Governmental Authority of competent jurisdiction or other legal or regulatory prohibition will be in effect, in each case that would prevent the consummation of the Transactions.

(b) All authorizations, consents, orders or approvals of, or declarations or filings with, or expiration of waiting periods under the HSR Act or under the laws of any of the jurisdictions listed on Schedule 7.01(b) hereto, necessary for the consummation of the Transactions will have been filed, expired or been obtained.

(c) The DHC Stockholder Approval has been obtained.

(d) The New DHC Charter has been filed with the Secretary of State of the State of Delaware, and has become effective, in accordance with the DGCL.

(e) The Registration Statement (as amended or supplemented) has been declared effective and will be effective under the Securities Act at the Unconditional Time, and no stop order suspending effectiveness has been issued, and no action, suit, proceeding or, to the knowledge of DHC, investigation seeking a stop order or to suspend the effectiveness of the Registration Statement will be pending before or threatened by the SEC.

(f) Each of the Transaction Documents has been executed and delivered and is in full force and effect.

(g) The shares of New DHC Common Stock to be issued pursuant to the Merger have been approved for listing on the Nasdaq Global Select Market, subject to official notice of issuance.

(h) The registration statement on Form 10 (as amended or supplemented) of the Spin-Off Company has been declared effective and will be effective under the Exchange Act at the Unconditional Time, and no stop order suspending effectiveness has been issued, and no action, suit, proceeding or, to the knowledge of DHC, investigation seeking a stop order or to suspend the effectiveness of such registration statement will be pending before or threatened by the SEC.

(i) The shares of Series A common stock of the Spin-Off Company to be issued in the AMG Spin-Off to holders of DHC Common Stock have been approved for listing on the Nasdaq Stock Market, subject to official notice of issuance.

(j) All other conditions and steps to completing the AMG Spin-Off have been satisfied, completed or waived, as applicable, except those documents and instruments necessary to complete the AMG Spin-Off that can only be delivered at or immediately prior to the Spin-Off Effective Time.

Section 7.02. *Additional Conditions to ANPP s Obligations*. The obligations of ANPP to consummate the ANPP Contribution are also subject to the satisfaction at or prior to the Unconditional Time of each of the following conditions, unless waived by ANPP (to the extent such condition may be waived by ANPP) in writing:

(a) Except as set forth in the following sentence, the representations and warranties of DHC contained in this Agreement and in any certificate or other writing delivered by DHC pursuant hereto will be true and correct (without giving effect to any limitation as to materiality set forth therein) as of the date of this Agreement and (except to the extent such representations and warranties speak as of a specified earlier date, in which case, as of such earlier date) as of the Unconditional Time as though made as of the Unconditional Time, except where the failure of such representations and warranties to be true and correct (without giving effect to any limitation as to materiality set forth therein) would not, individually or in the aggregate, have a material adverse effect on the business and operations of New DHC and its Subsidiaries, taken as a whole, or on the ability of DHC to consummate the Transactions. The representations and warranties of the DHC Parties contained in Section 3.06(c) will be true and correct in all respects at and as of the Unconditional Time as if made at and as of such time.

(b) Each DHC Party has performed in all material respects all obligations and agreements, and complied in all material respects with all covenants and conditions, contained in this Agreement to be performed or complied with by it at or prior to the Unconditional Time.

(c) ANPP has received such certificates of DHC, effective as of the Unconditional Time, in each case signed by an executive officer of DHC (but without personal liability thereto), to evidence satisfaction of the conditions set forth in Sections 7.01(c), 7.02(a) and 7.02(b), as may be reasonably requested by ANPP.

(d) ANPP has received the opinion of Ernst & Young LLP or another nationally recognized accounting firm or law firm ***(ANPP Tax Counsel)***, in form and substance reasonably satisfactory to ANPP and dated as of the Closing Date, to the effect that, for United States federal income tax purposes, the ANPP Contribution (in conjunction with the Merger) will qualify as a tax-free exchange within the meaning of Section 351 of the Code. In rendering such opinion, ANPP Tax Counsel may rely upon (and may incorporate by reference) representations and covenants contained in the ANPP Tax Opinion Representations.

Section 7.03. *Additional Conditions to the DHC Parties Obligations*. The obligations of the DHC Parties to consummate the Transactions are also subject to the satisfaction at or prior to the Unconditional Time of each of the following conditions, unless irrevocably waived by DHC, on behalf of the DHC Parties (to the extent such condition may be waived by the DHC Parties) in writing:

(a) Except as set forth in the following sentence, the representations and warranties of ANPP contained in this Agreement and in any certificate or other writing delivered by ANPP pursuant hereto will be true and correct (without giving effect to any limitation as to materiality set forth therein) as of the date of this Agreement and (except to the extent such representations and warranties speak as of a specified earlier date, in which case, as of such earlier date) as of the Unconditional Time as though made as of the Unconditional Time, except where the failure of such representations and warranties to be true and correct (without giving effect to any limitation as to materiality set forth therein) would not, individually or in the aggregate, have a material adverse effect on ANPP s ability to consummate the Transactions. The representations and warranties of ANPP contained in Section 4.04 will be true and correct in all respects at and as of the Unconditional Time as if made at and as of such time.

(b) ANPP has performed in all material respects all obligations and agreements, and complied in all material respects with all covenants and conditions, contained in this Agreement to be performed or complied with by it at or prior to the Unconditional Time.

(c) DHC has received such certificates of ANPP, effective as of the Unconditional Time, in each case signed by an executive officer of ANPP (but without personal liability thereto), to evidence satisfaction of the conditions set forth in Sections 7.03(a) and 7.03(b), as may be reasonably requested by DHC.

(d) DHC has received the opinion of Skadden, Arps, Slate, Meagher & Flom LLP or another nationally recognized law firm ***(DHC Tax Counsel)***, in form and substance reasonably satisfactory to DHC and dated as of the Closing Date, to the effect that, for United States federal income tax purposes, (i) the AMG Spin-Off should qualify as a reorganization under Sections 368(a) and 355 of the Code to DHC and the holders of DHC Common Stock, and (ii) the Merger (in conjunction with the ANPP Contribution) will qualify as a tax-free exchange within the meaning of Section 351 of the Code. In rendering such opinion, DHC Tax Counsel may rely upon (and may incorporate by reference) representations and covenants contained in the DHC Tax Opinion Representations.

(e) The New DHC Rights Agreement has been executed and delivered and is in full force and effect and no investigation, action, suit or proceeding has been commenced, brought, taken or, to the knowledge of any DHC Party, threatened, seeking to invalidate the New DHC Rights Agreement (or any provision or term thereof), any of the New DHC Rights, the Rights Dividend or any of the transactions contemplated by the New DHC Rights Agreement.

Section 7.04. *Frustration of Closing Conditions*. None of the DHC Parties or ANPP may rely on the failure of any condition set forth in this Article VII to be satisfied if such failure was caused by such party s failure to act in good faith or to use its reasonable best efforts to cause the Closing to occur as required by Section 5.05.

ARTICLE VIII

Termination

Section 8.01. *Termination*.

(a) Notwithstanding anything to the contrary in this Agreement, this Agreement may be terminated and the Transactions abandoned at any time prior to the Unconditional Time, whether before or after the DHC Stockholder Approval is obtained:

(i) by mutual written agreement of DHC and ANPP;

(ii) by either DHC or ANPP, if the DHC Stockholder Approval is not obtained at the DHC Stockholder Meeting (as such meeting may be adjourned from time to time);

(iii) by either DHC or ANPP, if any of the conditions to such party s obligations set forth in Article VII has become incapable of fulfillment, and has not been waived by such party;

(iv) by either DHC or ANPP, if any court of competent jurisdiction or other Governmental Authority has issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the Transactions and such order, decree, ruling or other action has become final and nonappealable; or

(v) by either DHC or ANPP, if the Unconditional Time does not occur on or prior to December 31, 2008;

provided, *however*, that the party seeking termination pursuant to clause (ii), (iii), (iv) or (v) is not in breach of any of its representations, warranties, covenants or agreements contained in this Agreement in any material respect.

(b) Notwithstanding anything to the contrary in this Agreement, if the Closing has not occurred by the close of business on the 2nd Business Day after the Unconditional Time has occurred, then this Agreement may be terminated and the Transactions abandoned at any time after the close of business on the 2nd Business Day after the Unconditional Time has occurred by either DHC or ANPP; *provided*, *however*, that the party seeking termination pursuant to this Section 8.01(b) is not in breach of any of its representations, warranties, covenants or agreements contained in this Agreement in any material respect.

(c) In the event of termination by a party pursuant to this Section 8.01, written notice thereof will forthwith be given to the other parties, and the Transactions will be terminated without further action by any party. If this Agreement is terminated as provided herein, each party will return all documents and other material received from any other party relating to the Transactions, whether so obtained before or after the execution hereof.

Section 8.02. *Effect of Termination*. In the event of the termination of this Agreement pursuant to Section 8.01, this Agreement, except for the provisions of Section 5.04, Article X and this Section 8.02, will become void and will be of no further effect, without any liability on the part of any party hereto or its directors, officers or stockholders. Nothing in this Section 8.02 will be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement.

ARTICLE IX

Indemnification

Section 9.01. *Indemnification*. (a)(i) The DHC Parties, jointly and severally, covenant and agree, on the terms and subject to the limitations set forth in this Agreement, from and after the Closing to indemnify and hold harmless ANPP, its Affiliates and their respective officers, directors, shareholders, employees, representatives, agents and trustees (the ***ANPP Indemnified Parties***), from and against any actual and direct Losses incurred by such ANPP Indemnified Party, to the extent arising out of or resulting from:

(x) the representations and warranties of the DHC Parties contained in Section 3.06(c) not being true and correct when made or deemed made;

(y) any failure by any DHC Party to perform or fulfill any of its covenants or agreements contained in this Agreement to be performed in all material respects at or prior to the Closing Date; and

(z) (1) any Liability for Taxes, if any, incurred by ANPP (as determined below) as a consequence of the release of any of the ANPP Escrow Shares from the Escrow to the extent that the ANPP Contribution (in conjunction with the Merger) otherwise qualified as a tax-free exchange within the meaning of Section 351 of the Code, or (2) a claim made by a third party against an ANPP Indemnified Party that arises (A) solely out of the ownership or operation of the business, assets or liabilities of the Spin-Off Company after the Closing Date or (B) out of any Liability of any of the DHC Parties or of the Spin-Off Company (but not including any Liability of Discovery and its Subsidiaries or the Audio Company and its Subsidiaries) to the extent existing at, or arising out of a state of facts existing at or prior to, the Closing Date.

The Liability for Taxes incurred by ANPP pursuant to subparagraph (a)(i)(z)(1) shall be based upon the Tax that ANPP would incur if it were subject to Tax as a corporation using the Current Effective Tax Rate, plus the Liability for Taxes that would be incurred by ANPP as a result of the receipt of any payment made pursuant to subparagraph (a)(i)(z)(1).

(ii) Without any duplication of the foregoing indemnity in Section 9.01(a)(i) above, the DHC Parties, jointly and severally, covenant and agree, on the terms and subject to the limitations set forth in this Agreement, from and after the Closing, to indemnify and hold harmless ANPP from and against its Loss Percentage of any Losses incurred by New DHC calculated in the manner provided in Section 9.02 below, to the extent arising out of or resulting from:

(x) any failure by any DHC Party to perform or fulfill any of its covenants or agreements contained in this Agreement to be performed in all material respects at or prior to the Closing Date;

(y) any Liability of any of the DHC Parties or of the Spin-Off Company (but not including any Liability of Discovery and its Subsidiaries or the Audio Company and its Subsidiaries) to the extent existing at, or arising out of a state of facts existing at or prior to, the Closing Date; and

(z) any Liabilities or other obligations incurred, created or assumed by the Audio Company or its Subsidiaries prior to the Closing for which New DHC or its Subsidiaries (other than the Audio Company or its Subsidiaries) become obligated after the Closing.

(iii) No indemnification by the DHC Parties under Section 9.01(a)(ii) above will be due and payable to the ANPP Indemnified Parties, to the extent of any Losses arising from Liabilities that are subject to indemnification by the Spin-Off Company pursuant to the Reorganization Agreement or Tax Sharing Agreement to the extent New DHC has been indemnified by the Spin-Off Company for such Losses.

(b) ANPP covenants and agrees, on the terms and subject to the limitations set forth in this Agreement, from and after the Closing to indemnify and hold harmless the DHC Parties, their respective Affiliates and their respective officers, directors, shareholders, employees, representatives, agents and trustees (the ***DHC Indemnified Parties***), from and against any Losses incurred by such DHC Indemnified Party, to the extent arising out of or resulting from:

(i) any representation or warranty of ANPP contained in this Agreement and in any certificate or other writing delivered by ANPP or its Affiliates pursuant hereto, in each case, that survives the Closing not being true and correct when made or deemed made; and

(ii) any failure by ANPP or its Affiliates to perform or fulfill any of its covenants or agreements contained in this Agreement.

Section 9.02. Calculation of Losses. This Section 9.02 provides the calculation of the amount of indemnity to which ANPP will be entitled in respect of actual and direct Losses for which ANPP may be entitled to indemnification pursuant to Section 9.01(a)(i) and for indirect Losses in the form of a diminution in value of ANPP s interest in New DHC for which ANPP may be entitled to indemnification pursuant to Section 9.01(a)(ii). With respect to the calculation of Losses for which ANPP may be entitled to indemnification pursuant to Section 9.01(a)(i), the amount which the DHC Parties shall pay ANPP in respect of such Losses shall be computed by multiplying such Losses by one plus a fraction, (y) the numerator of which is the Loss Percentage (expressed as a decimal) and (z) the denominator of which is one minus the Loss Percentage (expressed as a decimal). With respect to the calculation of Losses for which ANPP may be entitled to indemnification pursuant to Section 9.01(a)(ii), ANPP s Losses for which the DHC Parties would be obligated to indemnify ANPP pursuant to Section 9.01(a)(ii) will be deemed to equal the product of (x) a fraction, (1) the numerator of which is the Loss Percentage (expressed as a decimal) and (2) the denominator of which is one minus the Loss Percentage (expressed as a decimal), and (y) the difference, if positive, between the fair market value of New DHC and its Subsidiaries (other than, prior to the AMG Spin-Off, AMG and its Subsidiaries), taken as a whole, determined as if such covenant or agreement had been performed in all respects or such Liability of DHC, the Spin-Off Company or the Audio Company and its Subsidiaries did not exist, and the fair market value of New DHC and its Subsidiaries (other than, prior to the AMG Spin-Off, AMG and its Subsidiaries), taken as a whole, determined after giving effect to the breach, nonperformance or violation of such covenant or agreement or the existence of such Liability at DHC, the Spin-Off Company or the Audio Company and its Subsidiaries. (but without giving effect to any indemnification obligation of the DHC Parties pursuant to this Agreement). The fair market value of New DHC for purposes of the immediately preceding sentence, will be determined after giving effect to, among other considerations and effects, the stock price of shares of New DHC Common Stock, the equity value of New DHC, any amounts recovered by New DHC under insurance policies or indemnities from third parties or from the Spin-Off Company pursuant to the Reorganization Agreement or the Tax Sharing Agreement, and any Tax effects relating to or resulting from the Loss. For purposes of this Agreement, the term ***Loss Percentage*** means the lesser of (1) 331/3% and (2) the percentage obtained by dividing (A) the total number of shares of New DHC Common Stock Beneficially Owned by ANPP after giving effect to conversion of all shares of New DHC Preferred Stock (other than any ANPP Escrow Shares) held by the ANPP Stockholder Group (as defined in the New DHC Charter), including any Released Series A Preferred Shares (as defined in the Escrow Agreement) and Released Series C Preferred Shares (as defined in the Escrow Agreement), on the date the indemnification payment is made by (B) the sum of the total number of shares of New DHC Common Stock issued and outstanding after giving effect to conversion of all shares of New DHC Preferred Stock held by the ANPP Stockholder Group (other than the ANPP Escrow Shares) on the date the indemnification payment is made, including any Released Series A Preferred Shares and Released Series C Preferred Shares.

Section 9.03. Defense of Claims.

(a) Any Party seeking indemnification under Section 9.01 hereof (the ***Indemnified Party***) will give the party from whom such indemnification is sought (the ***Indemnifying Party***) prompt (which, in the case of any claim, investigation, action, suit or proceeding made or commenced by a third party for which indemnity is being sought, will be no later than ten Business Days following receipt by the Indemnified Party of written notice of such third party claim, investigation, action, suit or proceeding) notice of any claim, investigation, action, suit or proceeding with respect to which such indemnification is sought; *provided, however*, that failure to give such notification will not affect the indemnification provided hereunder except to the extent the Indemnifying Party has been actually and materially prejudiced as a result of such failure (except that the Indemnifying Party will not be liable for any expenses incurred during the period in which the Indemnified Party failed to give such notice). Thereafter, the Indemnified Party will deliver to the Indemnifying Party, within five Business Days time after the Indemnified Party s receipt thereof, copies of all notices and documents (including court papers) received by the Indemnified Party relating to the third party claim, investigation, action, suit or proceeding. In the case of any such third party claim, investigation, action, suit or proceeding (other than as provided below), the Indemnified Party will be entitled, at the sole expense and liability of the Indemnifying Party, to exercise full control of the defense of, and subject to the other provisions of this Article IX, to the compromise or settlement of any third party claim, investigation, action, suit or proceeding unless the Indemnifying Party, within a reasonable time after the giving of such notice by the Indemnified Party: (i) delivers a written confirmation to such Indemnified Party that the indemnification provisions of Section 9.01 are applicable to such claim, investigation, action, suit or proceeding and that the Indemnifying Party will indemnify such Indemnified Party in respect of such claim, investigation, action, suit or proceeding pursuant to the terms of Section 9.01, (ii) notifies such Indemnified Party in writing of the Indemnifying Party s intention to assume the defense thereof, and (iii) retains legal counsel reasonably satisfactory to such Indemnified Party to conduct the defense of such claim, investigation, action, suit or proceeding, in which case the Indemnifying Party will be entitled to exercise full control of the defense, compromise or settlement of such third party claim, investigation, action, suit or proceeding, except to the extent otherwise expressly provided herein. Notwithstanding anything herein to the contrary, in the case of any third party claim, investigation, action, suit or proceeding against DHC, New DHC or any of their respective Subsidiaries, DHC, New DHC or such Subsidiary, as applicable, will be entitled to exercise full control of the defense, compromise or settlement thereof.

(b) If the Indemnifying Party so assumes the defense of any such claim, investigation, action, suit or proceeding in accordance herewith, then such Indemnified Party will cooperate with the Indemnifying Party in any manner that the Indemnifying Party reasonably may request in connection with the defense, compromise or settlement thereof. If the Indemnifying Party so assumes the defense of any such claim, investigation, action, suit or proceeding, the Indemnified Party will have the right to employ separate counsel and to participate in (but not control) the defense, compromise, or settlement thereof, but the fees and expenses of such counsel will be the expense of such Indemnified Party unless such Indemnified Party is a party to such claim, action, suit or proceeding, or a subject of such investigation, as applicable, and (i) the Indemnifying Party has agreed to pay such fees and expenses, (ii) any relief other than the payment of money damages is sought against the Indemnified Party or (iii) such Indemnified Party has been advised by its counsel that there may be one or more legal defenses available to it that are different from or additional to those available to the Indemnifying Party or that there may be a conflict of interest between the Indemnifying Party and the Indemnified Party in the conduct of the defense of such claim, investigation, action, suit or proceeding (in either of which cases the Indemnifying Party will not have the right to control the defense, compromise or settlement of such claim, investigation, action, suit or proceeding on behalf of the Indemnified Party), and in any such case described in clauses (i), (ii) or (iii) the reasonable fees and expenses of such separate counsel will be borne by the Indemnifying Party. No Indemnified Party will settle or compromise or consent to entry of any judgment with respect to any such claim, investigation, action, suit or proceeding for which it is entitled to indemnification hereunder without the prior written consent of the Indemnifying Party, which will not be unreasonably withheld, unless the Indemnifying Party had the right under this Section 9.03 to undertake control of the defense of such claim, investigation, action, suit or proceeding and, after reasonable notice, failed to do so. The Indemnifying Party will not, without the written consent of such Indemnified Party, settle or compromise or consent to entry of any judgment with respect to any such claim, investigation, action, suit or proceeding (x) in which any relief other than the payment of money damages is or may be sought against such Indemnified Party, (y) in which the amount of money damages contemplated to be paid in connection with such settlement, compromise or judgment, exceeds any dollar limitations on the Indemnifying Party s obligations hereunder pursuant to Section 9.01 or (z) that does not include as an unconditional term thereof the giving by the claimant, party conducting such investigation, plaintiff or petitioner to such Indemnified Party of a release from all liability with respect to such claim, investigation, action, suit or proceeding.

Section 9.04. *Survival*. The representations and warranties of ANPP contained herein will survive the Closing and continue in full force and effect (1) until the expiration of the applicable statute of limitations applicable to claims that may be asserted in respect of the matters covered thereby or related thereto, in the case of the representations and warranties set forth in Sections 4.01, 4.02, 4.04, 4.07 and 4.08, and (2) until the 12-month anniversary of the Closing Date, in the case of all other representations and warranties. The representations and warranties of the DHC Parties contained in Section 3.06(c) will survive the Closing and continue in full force and effect until the expiration of the applicable statute of limitations applicable to claims that may be asserted in respect of the matters covered thereby or related thereto. The covenants and agreements made by each Party in this Agreement will survive the Closing without limitation unless otherwise contemplated by their terms. Any representation, warranty or covenant that is the subject of a claim or dispute asserted in writing prior to the expiration of the applicable above-stated periods will survive with respect to such claim or dispute until the final resolution thereof.

Section 9.05. *Tax Treatment*. For all Tax purposes and to the extent permitted by applicable Tax law, the Parties will treat any payment made pursuant to this Article IX to (1) ANPP as an adjustment of the original consideration occurring in connection with the Transactions and (2) to the DHC Parties as a capital contribution by ANPP to New DHC occurring in connection with the Transactions.

Section 9.06. *Exclusive Remedy*. Following the Closing, except in the case of common law fraud, the sole and exclusive monetary remedy of the parties with respect to any and all claims arising from any breach of this Agreement or any of the other matters addressed in Section 9.01 will be pursuant to the indemnification provisions set forth in this Article IX.

ARTICLE X

Miscellaneous

Section 10.01. *Notices*. All notices, requests, demands, waivers and other communications required or permitted to be given under this Agreement will be in writing and will be deemed to have been duly given if delivered personally or mailed, certified or registered mail with postage prepaid, or sent by telegram, overnight courier or confirmed facsimile, as follows:

(a) if to New DHC, DHC, or Merger Sub, to:

Discovery Holding Company
12300 Liberty Boulevard
Englewood, Colorado 80112
Attn: Charles Y. Tanabe, Esq.
Facsimile: (720) 875-5858

and with a copy to:

Baker Botts L.L.P.
30 Rockefeller Plaza
New York, New York 10112
Attn: Frederick McGrath, Esq.
Facsimile: (212) 259-2530

(b) if to ANPP or ANPP Parent, to:

Advance/Newhouse Programming Partnership
5000 Campuswood Drive
E. Syracuse, NY 13057
Attn: Robert J. Miron
Facsimile: (315) 463-4127

and with a copy to:

Sabin, Bermant & Gould LLP
Four Times Square
New York, NY 10036
Attn: Craig D. Holleman, Esq.
Facsimile: (212) 381-7226

or to such other Person or address as any party will specify by notice in writing to the other party. All such notices, requests, demands, waivers and communications will be deemed to have been received on the date of delivery or on the third business day after the mailing thereof, except that any notice of a change of address will be effective only upon actual receipt thereof.

Section 10.02. *No Third Party Beneficiaries*. The terms of this Agreement are not intended to confer any rights or remedies hereunder upon, and will not be enforceable by, any Person other than the parties hereto, other than with respect to the provisions of Article IX hereof, each indemnified person.

Section 10.03. *Waiver*. No failure by any party to this Agreement to insist upon the strict performance of any covenant, agreement, term or condition hereof or to exercise any right or remedy consequent upon a breach of such or any other covenant, agreement, term or condition will operate as a waiver of such or any other covenant, agreement, term or condition of this Agreement. Any party to this Agreement, by notice given in accordance with Section 10.01, may, but will not be under any obligation to, waive any of its rights or conditions to its obligations under this Agreement, or any duty, obligation or covenant of any other party hereto. No waiver will affect or alter the remainder of this Agreement and each and every covenant, agreement, term and condition hereof will continue in full force and effect with respect to any other then existing or subsequent breach. The rights and remedies provided by this Agreement are cumulative and the exercise of any one right or remedy by any party will not preclude or waive its right to exercise any or all other rights or remedies.

Section 10.04. *Assignment*. Neither this Agreement nor any of the rights, interests or obligations hereunder will be assigned prior to the Closing (including by operation of law, in a merger or other business combination) by any of the parties hereto without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and permitted assigns.

Section 10.05. *Integration*. This Agreement and the other Transaction Documents (including the schedules and exhibits hereto and thereto) constitute the entire agreement among the parties hereto pertaining to the subject matter hereof and, except for the Nondisclosure Agreement, supersede all prior agreements and understandings of the parties in connection herewith, and no covenant, representation or condition not expressed in such Transaction Documents will affect, or be effective to interpret, change or restrict, the express provisions of this Agreement.

Section 10.06. *Captions*. The captions herein are included for convenience of reference only and will be ignored in the construction or interpretation hereof.

Section 10.07. *Counterparts*. This Agreement may be executed in one or more counterparts, all of which will be considered one and the same instrument and will become effective when one or more counterparts have been signed by each of the parties hereto and delivered to the other parties hereto, it being understood that all parties hereto need not sign the same counterpart.

Section 10.08. *Severability*. Each provision of this Agreement will be considered separable and if for any reason any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other Persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties hereto further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such illegal, void or unenforceable provision.

Section 10.09. *Governing Law*. This Agreement will be governed by and construed in accordance with the laws of the State of Delaware without giving effect to the conflicts of law principles thereof.

Section 10.10. *Jurisdiction*. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the Delaware Chancery Courts, or, if the Delaware Chancery Courts do not have subject matter jurisdiction, in the state courts of the State of Delaware located in Wilmington, Delaware, or in the United States District Court for any district within such state, for the purpose of any suit, action or other proceeding arising out of this Agreement or the Transactions. Each party agrees that service of any process, summons, notice or document by U.S. registered mail to such party s respective address in accordance with Section 10.01 will be effective service of process for any action, suit or proceeding in Delaware with respect to any matters to which it has submitted to jurisdiction in this Section 10.10. Each party hereto irrevocably and unconditionally waives and agrees not to plead or claim any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably and unconditionally waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

Section 10.11. *WAIVER OF JURY TRIAL*. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS.

Section 10.12. *Specific Performance*. Each of the parties to this Agreement agrees that the other parties hereto would be irreparably damaged if any of the provisions of this Agreement are not performed in accordance with its specific terms and that monetary damages would not provide an adequate remedy in such event. Accordingly, in addition to any other remedy to which the nonbreaching parties may be entitled, at law or in equity, the nonbreaching parties may be entitled to injunctive relief to prevent breaches of this Agreement and to specifically enforce the terms and provisions hereof.

Section 10.13. *Amendments*. This Agreement may be amended by an instrument in writing signed on behalf of each of the parties hereto at any time before or after receipt of the DHC Stockholder Approval, *provided*, *however*, that after the DHC Stockholder Approval and prior to the Closing, there will be made no amendment that by Law requires further approval by the DHC stockholders without the further approval of such stockholders.

Section 10.14. *Interpretation*. When a reference is made in this Agreement to Exhibits, Schedules, Articles or Sections, such reference will be to an Exhibit, Schedule, Article or Section to this Agreement unless otherwise indicated. The words include, includes, included, and including, when used herein will be deemed in each case to b followed by the words without limitation. The words close of business will be deemed to mean 5:00 PM, New York City time, on the date specified. The words hereof, herein, hereby, and hereunder and words of similar import wher used in this Agreement will refer to this Agreement as a whole and not to any particular provision of this Agreement. The words date hereof will refer to the date of this Agreement. The term or is not exclusive and means and/or unless the context in which such phrase is used will dictate otherwise. The word extent in the phrase to the extent will mean the degree to which a subject or other such thing extends, and such phrase will not mean simply if unless the context in which such phrase is used dictates otherwise. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. The table of contents and Article and Section headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement. Whenever the context may require, any pronoun will include the corresponding masculine, feminine and neuter forms. Any reference in this Agreement to a Person will be deemed to be a reference to such Person and any successor (by merger, consolidation, transfer or otherwise) to all or substantially all its assets.

Section 10.15. *Rules of Construction*. Each of the parties to this Agreement agrees that they have been represented by counsel during the negotiation, preparation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties, and is effective as of the day and year first above written.

DISCOVERY HOLDING COMPANY

By: /s/ Charles Y. Tanabe

Name: Charles Y. Tanabe

Title: Senior Vice President

DISCOVERY COMMUNICATIONS, INC.

By: /s/ Charles Y. Tanabe

Name: Charles Y. Tanabe

Title: Senior Vice President

DHC MERGER SUB, INC.

By: /s/ Charles Y. Tanabe

Name: Charles Y. Tanabe

Title: Senior Vice President

ADVANCE/NEWHOUSE PROGRAMMING PARTNERSHIP

By: Newhouse Programming Holdings Corp., its Managing Partner

By: /s/ Donald E. Newhouse

Name: Donald E. Newhouse

Title: President

[*Signature Page to Transaction Agreement*]

For purposes of Section 5.14 hereof only:

ADVANCE PUBLICATIONS, INC.

By: /s/ Donald E. Newhouse

Name: Donald E. Newhouse
Title: President

NEWHOUSE BROADCASTING CORPORATION

By: /s/ Donald E. Newhouse

Name: Donald E. Newhouse

Title: President

[*Signature Page to Transaction Agreement*]

Appendix C

Execution Copy

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this ***Agreement***) is made as of this 4th day of June, 2008, by and among Discovery Holding Company, a Delaware corporation ***(DHC***), Discovery Communications, Inc., a Delaware corporation ***(New DHC)***, and DHC Merger Sub, Inc., a Delaware corporation ***(Merger Sub***).

RECITALS

WHEREAS, each of New DHC and Merger Sub is a direct or indirect subsidiary of DHC;

WHEREAS, the parties desire to effect the transactions set forth in this Agreement in connection with (i) the creation of a new holding company structure by merging Merger Sub with and into DHC with DHC surviving, pursuant to which merger New DHC will become the new, public, parent company and DHC will become a wholly-owned subsidiary of New DHC, and (ii) the conversion of outstanding DHC Common Stock (as defined below) into New DHC Common Stock (as defined below);

WHEREAS, this Agreement has been approved and declared advisable by the board of directors of each party hereto, and has been adopted by the sole stockholders of each of Merger Sub and New DHC; and

WHEREAS, the transactions contemplated by this Agreement are intended to qualify as a tax-free exchange (in conjunction with the ANPP Contribution (as defined in the Transaction Agreement)) within the meaning of Section 351 of the Code (as defined below).

NOW, THEREFORE, in consideration of the foregoing premises and of the mutual covenants, representations, warranties and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS

As used in the Agreement, the following terms will have the following meanings unless the context otherwise requires:

ANPP means Advance/Newhouse Programming Partnership, a New York general partnership.

Book-Entry Shares means shares of DHC Common Stock held in the Direct Registration System.

Code means U.S. Internal Revenue Code of 1986, as amended.

Certificates means certificates that immediately prior to the Effective Time of the Merger represented shares of DHC Common Stock.

DHC Board means the Board of Directors of DHC.

DHC Common Stock means the DHC Series A Common Stock, the DHC Series B Common Stock and DHC Series C Common Stock.

DHC Incentive Plans means the Discovery Holding Company 2005 Incentive Plan (As Amended and Restated Effective August 15, 2007), the Discovery Holding Company 2005 Non-Employee Director Plan (As Amended and Restated Effective August 15, 2007) and the Discovery Holding Company Transitional Stock Adjustment Plan (As Amended and Restated Effective August 15, 2007).

DHC Rights Agreement means the Rights Agreement, dated as of July 18, 2005, between DHC and Computershare Trust Company, N.A., as Rights Agent.

DHC Series A Common Stock means the Series A Common Stock , par value $.01 per share, of DHC (including the DHC Series A Right attached thereto).

DHC Series B Common Stock means the Series B Common Stock , par value $.01 per share, of DHC (including the DHC Series B Right attached thereto).

DHC Series C Common Stock means the Series C Common Stock , par value $.01 per share, of DHC (including the DHC Series C Right attached thereto).

DHC Series A Right has the meaning ascribed to it in the DHC Rights Agreement.

DHC Series B Right has the meaning ascribed to it in the DHC Rights Agreement.

DHC Series C Right has the meaning ascribed to it in the DHC Rights Agreement.

Direct Registration System means the service of the Exchange Agent that provides for electronic direct registration of securities in a record holder s name on the Company s transfer books and allows shares to be transferred between record holders electronically.

Effective Time of the Merger means the time when the Merger becomes effective under applicable law as provided in Section 3.01(a).

Exchange Agent means Computershare Trust Company, N.A., which is the transfer agent for DHC Common Stock, is expected to be the transfer agent for New DHC Common Stock and is expected to be designated to act as exchange agent for the purpose of exchanging Certificates and Book-Entry Shares in the Merger.

Fair Market Value means with respect to a share of any series of New DHC Common Stock on any day, the last sale price (or, if no last sale price is reported, the average of the high bid and low asked prices) for a share of the applicable series of New DHC Common Stock on such day (or if such day is not a trading day, the next trading day) as reported on the Nasdaq Stock Market, Inc. or if such shares are not then listed on the Nasdaq Stock Market, Inc., as reported on the consolidated transaction reporting system for the principal national securities exchange on which shares of the applicable series of New DHC Common Stock are listed on such day; provided, that, if for any day the Fair Market Value of a share of the applicable series of New DHC Common Stock is not determinable by any of the foregoing means, then the Fair Market Value for such day shall be determined in good faith by the board of directors of New DHC or any committee thereof on the basis of such quotations and other considerations as the board or its committee deems appropriate.

Merger means the merger of Merger Sub with and into DHC with DHC surviving the merger.

New DHC Common Stock means, collectively, the New DHC Series A Common Stock, New DHC Series B Common Stock and New DHC Series C Common Stock.

New DHC Rights means, collectively, the New DHC Series A Rights, the New DHC Series B Rights and the New DHC Series C Rights.

New DHC Series A Common Stock means the Series A Common Stock, par value $0.01 per share, of New DHC (including, after the Effective Time of the Merger, the New DHC Series A Right attached thereto pursuant to the New DHC Rights Agreement).

New DHC Series B Common Stock means the Series B Common Stock, par value $0.01 per share, of New DHC (including, after the Effective Time of the Merger, the New DHC Series B Right attached thereto pursuant to the New

DHC Rights Agreement).

New DHC Series C Common Stock means the Series C Common Stock, par value $0.01 per share, of New DHC (including, after the Effective Time of the Merger, the New DHC Series C Right attached thereto pursuant to the New DHC Rights Agreement).

New DHC Series A Right means a Series A Right (as defined in the New DHC Rights Agreement).

New DHC Series B Right means a Series B Right (as defined in the New DHC Rights Agreement).

New DHC Series C Right means a Series C Right (as defined in the New DHC Rights Agreement).

Person means an individual, firm, corporation, partnership, limited liability company, trust, joint venture or other entity or a government, agency, political subdivision, or instrumentality thereof.

Record Date means the date and time as of which holders of DHC Common Stock must own shares of DHC Common Stock to be eligible to vote such shares at the Special Meeting.

SEC means the Securities and Exchange Commission, and any successor commission or agency having similar powers.

Securities Act means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

Special Meeting has the meaning ascribed to it in the Transaction Agreement.

Transactions has the meaning ascribed to it in the Transaction Agreement.

Transaction Agreement means the agreement, dated as of June 4, 2008, by and among DHC, New DHC, Merger Sub, ANPP and, with respect to Section 5.14 thereof only, Advance Publications, Inc., a New York corporation, and Newhouse Broadcasting Corporation, a New York corporation.

VWAP means, (i) with respect to the DHC Series A Common Stock or DHC Series B Common Stock, the average of the daily volume weighted average prices of such security over the 5-trading days ending on the trading day immediately preceding the Closing Date (as defined in the Transaction Agreement) or, if applicable, the trading day immediately preceding the first date on which the DHC Series A Common Stock or DHC Series B Common Stock, as applicable, trades regular way on the Nasdaq Global Select Market without the right to receive shares of common stock of the Spin-Off Company (as defined in the Transaction Agreement), and (ii) with respect to the New DHC Series A Common Stock, New DHC Series B Common Stock, New DHC Series C Common Stock, Series A common stock of the Spin-Off Company or Series B common stock of the Spin-Off Company, the average of the daily volume weighted average prices of such security over the 10-trading days beginning on the day immediately following the Closing (as defined in the Transaction Agreement).

The following terms have the meanings ascribed thereto in the sections set forth opposite such terms:

Additional Defined Terms	**Section**
Agreement	Preamble
Awards	3.04(a)
Carryover Director	3.04(b)(ii)
Certificate of Merger	3.01(a)
Consideration	3.02(a)(ii)
Converted Options	3.04(b)(iv)
Converted Series A Option	3.04(b)(i)
Converted Series B Option	3.04(b)(iv)
DGCL	3.01(a)
DHC	Preamble
DHC Awards	3.04(a)
DHC Charter	3.01(c)
Director Series A Option	3.04(b)(ii)
Former Book-Entry Holders	3.03(b)
Former Book-Entry Shares	3.03(b)
Former Certificate Holders	3.03(a)(i)
Former Certificated Shares	3.03(a)(i)
Former DHC Holders	3.03(b)
Former DHC Shares	3.03(b)
Merger Sub	Preamble
New DHC	Preamble
New DHC Bylaws	2.01
New DHC Charter	2.01
New DHC Original Stock	2.01
Rollover SARs	3.04(b)(iii)
Scheduled Series A Option	3.04(b)(i)
Series A Consideration	3.02(a)(i)
Series B Consideration	3.02(a)(ii)
Series A Option	3.04(b)(iii)
Series B Option	3.04(b)(iv)
Series C Option	3.04(b)(i)
Series A SAR	3.04(b)(iii)
Series C SAR	3.04(b)(iii)
Spin-Off Company Series A Option	3.04(b)(i)
Spin-Off Company Series B Option	3.04(b)(iv)
Surviving Entity	3.01(a)

ARTICLE II

NEW DHC

Section 2.01 *Organization of New DHC*. DHC has caused New DHC to be organized under the laws of the State of Delaware. The authorized capital stock of New DHC on the date hereof consists of 10,000 shares of common stock, par value $0.01 per share (the ***New DHC Original Stock***), of which 1,000 shares has been issued to DHC and no other shares are issued and outstanding. Prior to the Contribution Effective Time (as defined in the Transaction Agreement), New DHC will (i) cause the Certificate of Incorporation of New DHC ***(New DHC Charter)*** to be restated as set forth in Exhibit 2.01(c)(i) to the Transaction Agreement and filed with the Delaware Secretary of State, and such New DHC Charter will be in effect as of the Effective Time of the Merger, (ii) cause the

Bylaws (***New DHC Bylaws***) of New DHC to be restated as set forth in Exhibit 2.01(c)(ii) to the Transaction Agreement, and such New DHC Bylaws will be in effect as of the Effective Time of the Merger, and (iii) execute and deliver to Computershare Trust Company, N.A., the Rights Agreement between New DHC and the Computershare Trust Company, N.A., in substantially the form of Exhibit 2.01(c)(iii) to the Transaction Agreement (the ***New DHC Rights Agreement***). The authorized capital stock of New DHC at the Effective Time of the Merger will be as provided for in the New DHC Charter.

Section 2.02 *Directors and Officers of New DHC*.

As of and following the Effective Time of the Merger, until their successors are duly elected or appointed in accordance with the New DHC Charter and the New DHC Bylaws, the directors, executive officers and certain other officers of New DHC will be as set forth on Schedule 2.03(f) to the Transaction Agreement.

ARTICLE III

THE MERGER AND RELATED MATTERS

Section 3.01 *The Merger*.

(a) *Merger; Effective Time of the Merger*. At the Effective Time of the Merger and subject to and upon the terms and conditions of this Agreement, Merger Sub will merge with and into DHC in accordance with the provisions of the General Corporation Law of the State of Delaware (***DGCL***), the separate corporate existence of Merger Sub will cease and DHC will continue as the surviving entity (the ***Surviving Entity***). The Effective Time of the Merger will be on the date and at the time that the certificate of merger with respect to the Merger, containing the provisions required by and executed in accordance with Section 251 of the DGCL (the ***Certificate of Merger***), has been accepted for filing by the Delaware Secretary of State, and all other documents required by the DGCL to effectuate the Merger will have been properly executed and filed (or such later date and time as may be specified in the Certificate of Merger).

(b) *Effects of the Merger*. From and after the Effective Time of the Merger, the Merger will have the effects set forth in the DGCL (including Sections 259, 260 and 261 thereof). Without limiting the generality of the foregoing, and subject thereto, at the Effective Time of the Merger, all the properties, rights, privileges, powers and franchises of DHC and Merger Sub will vest in the Surviving Entity, and all debts, liabilities and duties of DHC and Merger Sub will, by operation of law, become the debts, liabilities and duties of the Surviving Entity.

(c) *Certificate of Incorporation of the Surviving Entity*. At the Effective Time of the Merger, the Amended and Restated Certificate of Incorporation of DHC (the ***DHC Charter***) will be amended pursuant to the Certificate of Merger to be identical to the Certificate of Incorporation of Merger Sub in effect immediately prior to the Effective Time of the Merger, except that Article FIRST thereof will read as follows: The name of the Corporation (which is hereinafter called the Corporation) is Discovery Holding Company . Such DHC Charter as so amended will be the Certificate of Incorporation of the Surviving Entity until thereafter duly amended or restated in accordance with the terms thereof and the DGCL.

(d) *Bylaws of the Surviving Entity*. At the Effective Time of the Merger, the Restated Bylaws of DHC (the ***DHC Bylaws***) will be amended to be identical to the bylaws of Merger Sub in effect immediately prior to the Effective Time of the Merger and, in such amended form, will be the Bylaws of the Surviving Entity until thereafter duly amended or restated in accordance with the terms thereof, the terms of the Certificate of Incorporation of the Surviving Entity and the DGCL.

Section 3.02 *Conversion of Securities*.

(a) *Conversion of DHC Securities*. At the Effective Time of the Merger, by virtue of the Merger and without any action on the part of any party hereto or any holder of shares of DHC Common Stock:

(i) each share of DHC Series A Common Stock issued and outstanding immediately prior to the Effective Time of the Merger (together with the DHC Series A Right attached thereto) will be converted into and represent the right to receive, and will be exchangeable for, 0.50 shares of New DHC Series A Common Stock and 0.50 shares of New DHC Series C Common Stock (the ***Series A Consideration***);

(ii) each share of DHC Series B Common Stock (together with the DHC Series B Right attached thereto) issued and outstanding immediately prior to the Effective Time of the Merger will be converted into and represent the right to receive, and will be exchangeable for, 0.50 shares of New DHC Series B Common Stock and 0.50 shares of New DHC Series C Stock (the ***Series B Consideration*** , which, together with the Series A Consideration, is the ***Consideration***); and

(iii) each share of DHC Common Stock held in treasury of DHC immediately prior to the Effective Time of the Merger will be cancelled and retired without payment of any consideration therefor and without any conversion thereof.

At the Effective Time, all shares of DHC Common Stock issued and outstanding immediately prior to the Effective Time will no longer be outstanding and will automatically be canceled and retired and will cease to exist, and each holder of a Certificate or Book-Entry Share will have no further rights with respect thereto, except as set forth in Section 3.03.

(b) *Conversion of Merger Sub Stock*. At the Effective Time of the Merger, by virtue of the Merger and without any action on the part of any party hereto or any holder of shares of stock of Merger Sub, each share of common stock of Merger Sub issued and outstanding immediately prior to the Effective Time of the Merger will be converted into and become one validly issued, fully paid and nonassessable share of common stock of the Surviving Entity. Such shares will constitute the only outstanding shares of capital stock of the Surviving Entity.

(c) *Treatment of New DHC Securities*. At the Effective Time of the Merger, by virtue of the Merger and without any action on the part of any party hereto, each share of New DHC Original Stock held by DHC will be cancelled and retired and will cease to exist.

Section 3.03 *Exchange Procedures*.

(a) *Exchange of Certificates*.

(i) As soon as reasonably practicable after the Effective Time of the Merger, New DHC will cause to be mailed to (x) each record holder, as of the Effective Time of the Merger, of Certificates (such holders, ***Former Certificate Holders*** and such shares, ***Former Certificated Shares***): (A) a letter of transmittal (which will specify that delivery will be effected, and risk of loss and title to the Certificates held by such holder representing such Former Certificated Shares will pass, only upon proper delivery of the Certificates to the Exchange Agent) and (B) instructions for use in effecting the surrender of the Certificates for the Consideration. Such letter of transmittal will be in such form and have such other reasonable provisions as New DHC may specify.

(ii) Upon surrender by a Former Certificate Holder to the Exchange Agent of a Certificate, together with a letter of transmittal, duly completed and validly executed in accordance with the instructions thereto, and such other documents as may be required pursuant to such instructions, each Former Certificate Holder will be entitled to receive in exchange therefor: (A) the number of whole shares of New DHC Common Stock into which such holder s shares of DHC Common Stock represented by such holder s properly surrendered Certificates were converted in accordance with this Article III, and such Certificates so surrendered will be forthwith cancelled, (B) a check in an amount of U.S. dollars (after giving effect to any required withholdings pursuant to Section 3.03(e)) equal to any cash consideration in lieu of fractional shares to which such holder is entitled pursuant to Section 3.03(d), and (C) any unpaid dividends or distributions which such holder is entitled to receive.

(iii) If issuance of the Consideration is to be made to a Person other than the Person in whose name the surrendered Certificate is registered, it will be a condition of payment or issuance that the Certificate so surrendered will be properly endorsed or will be otherwise in proper form for transfer and that the Person requesting such payment or issuance will have paid to the Exchange Agent any transfer and other taxes required by reason of the payment or issuance of the Consideration to a Person other than the registered holder of the Certificate surrendered or will have established to the satisfaction of the Exchange Agent that such tax either has been paid or is not applicable. In the event that any Certificate will have been lost, stolen or destroyed, upon the holder s compliance with the replacement requirements established by the Exchange Agent, including, if necessary, the posting by the holder of a bond in customary amount as indemnity against any claim that may be made against it with respect to the Certificate, the Exchange Agent will deliver in exchange for the lost, stolen or destroyed Certificate the applicable

Consideration payable in respect of the shares of DHC Common Stock represented by the Certificate pursuant to this Article III, together with any cash or other consideration to which such holder is entitled.

(iv) Until surrendered as contemplated hereby, each Certificate will, after the Effective Time of the Merger, represent for all purposes only the right to receive upon such surrender the applicable Consideration as contemplated by this Article III, together with any cash or other consideration to which such holder is entitled.

(v) At the Effective Time of the Merger, the stock transfer books of DHC will be closed, and thereafter there will be no further registration of transfers of shares of DHC Common Stock, that were outstanding prior to the Effective Time of the Merger. After the Effective Time of the Merger, Certificates presented to DHC for transfer will be canceled and exchanged for the applicable Consideration in accordance with the procedures set forth in this Article III, together with any cash or other consideration to which such holder is entitled.

(b) Treatment of Book-Entry Shares. As soon as reasonably practicable after the Effective Time of the Merger, New DHC will cause to be mailed to (x) each record holder, as of the Effective Time of the Merger, of Book-Entry Shares (such holders, ***Former Book-Entry Holders*** and together with Former Certificate Holders, ***Former DHC Holders,*** and such shares, ***Former Book-Entry Shares*** and together with Former Certificated Shares, ***Former DHC Shares***): (A) a statement of holdings which will state the number of whole shares of New DHC Common Stock into which such Former Book Entry Holder s shares of DHC Common Stock were converted in accordance with this Article III, and (B) a check in an amount of U.S. dollars (after giving effect to any required withholdings pursuant to Section 3.03(e)) equal to any cash consideration to which such holder is entitled hereunder.

(c) Distributions With Respect to Unexchanged Shares. No dividends or other distributions with respect to shares of New DHC Common Stock issuable with respect to Former Certificated Shares will be paid to the holder of any unsurrendered Certificates until those Certificates are surrendered as provided in this Article III. Upon surrender, there will be issued and/or paid to the holder of the shares of New DHC Common Stock issued in exchange therefor, without interest, (i) at the time of surrender, the dividends or other distributions payable with respect to those shares of New DHC Common Stock with a record date on or after the date of the Effective Time of the Merger and a payment date on or prior to the date of such surrender and not previously paid and (ii) at the appropriate payment date, the dividends or other distributions payable with respect to those shares of New DHC Common Stock with a record date on or after the date of the Effective Time of the Merger but with a payment date subsequent to surrender.

(d) No Fractional Shares. No certificates or scrip representing fractional shares of New DHC Common Stock will be issued with respect to Book-Entry Shares evidencing DHC Common Stock or upon the surrender for exchange of Certificates, and such fractional share interests will not entitle the owner thereof to vote or to any rights of a stockholder of New DHC. In lieu thereof, upon surrender of the applicable Certificates or upon conversion of Book-Entry Shares, New DHC will pay each holder of DHC Common Stock an amount in cash equal to the product obtained by multiplying (i) the fractional share interest of the series of New DHC Common Stock to which such holder would otherwise be entitled, by (ii) the closing price for a share of such stock on the first trading day on which shares of New DHC Common Stock trade in the regular way market.

(e) Withholding. New DHC and the Exchange Agent will be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of DHC Common Stock such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code and the Treasury Regulations promulgated thereunder, or any provision of state, local or foreign tax law. To the extent that amounts are so withheld by New DHC or the Exchange Agent, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of DHC Common Stock in respect of which such deduction and withholding was made by New DHC or the Exchange Agent.

Section 3.04 *Stock Incentive Plans; Treatment of Outstanding DHC Common Stock Options*.

(a) *Assumption of Plans and Awards*. As of the Effective Time of the Merger, New DHC will assume (i) the DHC Incentive Plans and (ii) each of the then outstanding options, stock appreciation rights and other incentive awards representing a right with respect to shares of DHC Series A Common Stock or DHC Series B Common Stock, as applicable (collectively, ***Awards***), issued or assumed by DHC pursuant to the DHC Incentive Plans (collectively, **DHC Awards**). As of the Effective Time of the Merger, each DHC Award will be assumed (as assumed, a **Replacement Award**) by New DHC and will thereafter be exercisable for or relate to shares of New DHC Common Stock, as more particularly described in Section 3.04(b).

(b) DHC Common Stock Options.

(i) At the Effective Time of the Merger, each of the then outstanding stock options, if any, to purchase shares of DHC Series A Common Stock set forth on Schedule 3.04(b) hereto (each, a **Scheduled Series A Option**) issued by DHC pursuant to the DHC Incentive Plans, will, by virtue of the AMG Spin-Off (as defined in the Transaction Agreement) and the Merger, and without any further action on the part of any holder thereof, be converted into (A) an option (a **Converted Series A Option**) to purchase shares of New DHC Series A Common Stock in an amount and at an exercise price as determined below, (B) an option (a **Series C Option**) to purchase shares of New DHC Series C Common Stock in an amount and at an exercise price as determined below, and (C) an option (a **Spin-Off Company Series A Option**) to purchase shares of Series A common stock of the Spin-Off Company in an amount and at an exercise price as determined below. The exercise price of such Converted Series A Option, Series C Option and Spin-Off Company Series A Option will be equal to the applicable VWAP for the series of common stock subject to such option, *multiplied* by a fraction, the numerator of which is the exercise price of such Scheduled Series A Option and the denominator of which is the VWAP for the DHC Series A Common Stock. The number of shares of New DHC Series A Common Stock, New DHC Series C Common Stock and Series A common stock of the Spin-Off Company subject to the Converted Series A Option, Series C Option and Spin-Off Company Series A Option, as applicable, will be determined so that the aggregate amount by which the Scheduled Series A Option was in-the-money or out-of-the-money , as applicable, immediately prior to the Transactions (determined according to the VWAP for the DHC Series A Common Stock) is preserved immediately following the Transactions (allocating such aggregate in-the-money or out-of-the-money amounts according to the applicable VWAP for the New DHC Series A Common Stock, New DHC Series C Common Stock and Series A common stock of the Spin-Off Company). The terms and conditions of each Converted Series A Option, Series C Option and Spin-Off Company Series A Option, including vesting conditions (which will not be accelerated by the Transactions) and the scheduled expiration date, will otherwise remain as set forth in the Scheduled Series A Option converted into such Converted Series A Option, Series C Option and Spin-Off Company Series A Option. If the foregoing calculation results in a Converted Series A Option, Series C Option or Spin-Off Company Series A Option being exercisable for a fraction of a share of New DHC Series A Common Stock, New DHC Series C Common Stock or Series A common stock of the Spin-Off Company, as applicable, then the number of shares of New DHC Series A Common Stock, New DHC Series C Common Stock or Series A common stock of the Spin-Off Company, as applicable, subject to such option will be rounded down to the nearest whole number of shares, with no cash being payable for such fractional share.

(ii) At the Effective Time of the Merger, each of the then outstanding stock options, if any, to purchase shares of DHC Series A Common Stock (excluding any Scheduled Series A Options and any such options that are, at the option of the holder, exercisable for shares of DHC Series A Common Stock or DHC Series B Common Stock) held by those members of the DHC Board (other than those directors that hold Scheduled Series A Options) as of the date of this Agreement who will be directors of New DHC immediately after the Effective Time of the Merger (each, a **Director Series A Option,** any such director, and any director that holds a Scheduled Series A Option, a **Carryover Director**) issued by DHC pursuant to the DHC Incentive Plans, will, by virtue of the AMG Spin-Off and the Merger, and without any further action on the part of any holder thereof, be converted into (A) a Converted Series A Option to purchase shares of New DHC Series A Common Stock in an amount and at an exercise price as determined below, and (B) a Series C Option to purchase shares of New DHC Series C Common Stock in an amount and at an exercise price as determined below. The exercise price of such Converted Series A Option and Series C Option will be equal to the applicable VWAP for the series of common stock subject to such option, *multiplied* by a fraction, the numerator of which is the exercise price of such Director Series A Option and the denominator of which is the VWAP for the DHC Series A Common Stock. The number of shares of New DHC Series A Common Stock and New DHC Series C

Common Stock subject to the Converted Series A Option and Series C Option, as applicable, will be determined so that the aggregate amount by which the Director Series A Option was in-the-money or out-of-the-money , as applicable, immediately prior to the Transactions (determined according to the VWAP for the DHC Series A Common Stock) is preserved immediately following the Transactions (allocating such aggregate in-the-money or out-of-the-money amounts according to the applicable VWAP for the New DHC Series A Common Stock and New DHC Series C Common Stock). The terms and conditions of each Converted Series A Option and Series C Option, including vesting conditions (which will not be accelerated by the Transactions) and the scheduled expiration date, will otherwise remain as set forth in the Director Series A Option converted into such Converted Series A Option and Series C Option. If the foregoing calculation results in a Converted Series A Option or a Series C Option being exercisable for a fraction of a share of New DHC Series A Common Stock or New DHC Series C Common Stock, as applicable, then the number of shares of New DHC Series A Common Stock or New DHC Series C Common Stock, as applicable, subject to such option will be rounded down to the nearest whole number of shares, with no cash being payable for such fractional share.

(iii) At the Effective Time of the Merger, each of the then outstanding stock options, if any, to purchase shares of DHC Series A Common Stock other than the Director Series A Options and the Scheduled Series A Options (each, a ***Series A Option***) issued by DHC pursuant to the DHC Incentive Plans, will, by virtue of the AMG Spin-Off and the Merger, and without any further action on the part of any holder thereof, be converted into (A) a stock appreciation right (a ***Series A SAR***) with respect to that number of shares of New DHC Series A Common Stock and at such base price as determined below, and (B) a stock appreciation right (a ***Series C SAR*** and, together with the Series A SARs, the ***Rollover SARs***) with respect to that number of shares of New DHC Series C Common Stock and at such base price as determined below. The base price of each Series A SAR and Series C SAR will be equal to the applicable VWAP for the series of common stock subject to such Rollover SAR, *multiplied* by a fraction, the numerator of which is the exercise price of such Series A Option and the denominator of which is the VWAP for the DHC Series A Common Stock. The number of shares of New DHC Series A Common Stock and New DHC Series C Common Stock to which the Series A SAR and Series C SAR, as applicable, relate will be determined so that the aggregate amount by which the Series A Option was in-the-money or out-of-the-money , as applicable, immediately prior to the Transactions (determined according to the VWAP for the DHC Series A Common Stock) is preserved immediately following the Transactions (allocating such aggregate in-the-money or out-of-the-money amounts according to the applicable VWAP for the New DHC Series A Common Stock and New DHC Series C Common Stock). The terms and conditions of each Series A SAR and Series C SAR, including vesting conditions (which will not be accelerated by the Transactions) and the scheduled expiration date, will otherwise remain as set forth in the Series A Option converted into such Series A SARs and Series C SARs, except that, the spread between the Fair Market Value of the underlying shares and the base price of each Series A SAR and Series C SAR will be payable solely in shares of New DHC Series A Common Stock or New DHC Series C Common Stock, as applicable (with such shares of New DHC Common Stock valued at the Fair Market Value of shares of New DHC Series A Common Stock or New DHC Series C Common Stock, as applicable, on the date of exercise). If the foregoing calculation results in a Series A SAR or a Series C SAR being exercisable for a fraction of a share of New DHC Series A Common Stock or New DHC Series C Common Stock, as applicable, then the number of shares of New DHC Series A Common Stock or New DHC Series C Common Stock, as applicable, subject to such SAR will be rounded down to the nearest whole number of shares, with no cash being payable for such fractional share.

(iv) At the Effective Time of the Merger, each of the then outstanding stock options, if any, to purchase shares of DHC Series B Common Stock (including any such options that are, at the option of the holder, exercisable for shares of DHC Series B Common Stock or DHC Series A Common Stock) held by any Carryover Director (each, a ***Series B Option***) issued by DHC pursuant to the DHC Incentive Plans, will, by virtue of the AMG Spin-Off and the Merger, and without any further action on the part of any holder thereof, be converted into (A) an option (a ***Converted Series B Option*** and, together with the Converted Series A Options and Series C Options, the ***Converted Options***) to purchase shares of New DHC Series B Common Stock in an amount and at an exercise price as determined below, (B) a Series C Option to purchase shares of New DHC Series C Common stock in an amount and at an exercise price as determined below, and (C) an option (a ***Spin-Off Company Series B Option***) to purchase shares of Series B common stock of the Spin-Off Company in an amount and at an exercise price as determined below. The exercise price of such Converted Series B Option, Series C Option and Spin-Off Company

Series B Option will be equal to the applicable VWAP for the series of common stock subject to such option, *multiplied* by a fraction, the numerator of which is the exercise price of the Series B Option and the denominator of which is the VWAP for the DHC Series B Common Stock. The number of shares of New DHC Series B Common Stock, New DHC Series C Common Stock and Series B common stock of the Spin-Off Company subject to the

Converted Series B Option, Series C Option and Spin-Off Company Series B Option, as applicable, will be determined so that the aggregate amount by which the Series B Option was in-the-money or out-of-the-money, as applicable, immediately prior to the Transactions (determined according to the VWAP for the DHC Series B Common Stock) is preserved immediately following the Transactions (allocating such aggregate in-the-money or out-of-the-money amounts according to the applicable VWAP for the New DHC Series B Common Stock, New DHC Series C Common Stock and Series B common stock of the Spin-Off Company). The terms and conditions of each Converted Series B Option, Series C Option and Spin-Off Company Series B Option, including vesting conditions (which will not be accelerated by the Transactions) and the scheduled expiration date, will otherwise remain as set forth in the Series B Option converted into such Converted Series B Option, Series C Option and Spin-Off Company Series B Option. If the foregoing calculation results in a Converted Series B Option, a Series C Option or a Spin-Off Company Series B Option being exercisable for a fraction of a share of New DHC Series B Common Stock, New DHC Series C Common Stock or Series B common stock of the Spin-Off Company, as applicable, then the number of shares of New DHC Series B Common Stock, New DHC Series C Common Stock or Series B common stock of the Spin-Off Company, as applicable, subject to such option will be rounded down to the nearest whole number of shares, with no cash being payable for such fractional share.

(v) Notwithstanding the foregoing, DHC may, in its sole discretion, cancel any or all outstanding Director Series A Options, Scheduled Series A Options, Series A Options or Series B Options prior to or as of the Effective Time of the Merger for such cash or other consideration as may be determined to be appropriate by the DHC Board.

ARTICLE IV

CONDITIONS PRECEDENT

The respective obligations of the parties to consummate the transactions contemplated by this Agreement are subject to the completion of the ANPP Contribution (as defined in the Transaction Agreement) and the satisfaction, at or prior to the Effective Time of the Merger, of the conditions set forth in Article VII of the Transaction Agreement.

ARTICLE V

TERMINATION

This Agreement may be terminated and the transactions contemplated by this Agreement may be abandoned at any time prior to the Effective Time of the Merger by action of the Board of Directors of DHC, New DHC and Merger Sub for any reason, notwithstanding the adoption of this Agreement by the respective stockholders of DHC, New DHC or Merger Sub. Notwithstanding the foregoing, this Agreement will automatically terminate upon termination of the Transaction Agreement.

ARTICLE VI

MISCELLANEOUS

Section 6.01 *Notices*. All notices, requests, demands, waivers and other communications required or permitted to be given under this Agreement will be in writing and will be deemed to have been duly given if delivered personally or mailed, certified or registered mail with postage prepaid, or sent by telegram, overnight courier or confirmed facsimile, as follows:

Discovery Holding Company
12300 Liberty Boulevard

Englewood, Colorado 80112
Attn: Charles Y. Tanabe, Esq.
Facsimile: (720) 875-5858

or to such other Person or address as any party will specify by notice in writing to the other party. All such notices, requests, demands, waivers and communications will be deemed to have been received on the date of delivery or on the third business day after the mailing thereof, except that any notice of a change of address will be effective only upon actual receipt thereof.

Section 6.02 *No Third Party Beneficiaries*. The terms of this Agreement are not intended to confer any rights or remedies hereunder upon, and will not be enforceable by, any Person (including any holder of a DHC Award) other than the parties hereto.

Section 6.03 *Waiver*. No failure by any party to this Agreement to insist upon the strict performance of any covenant, agreement, term or condition hereof or to exercise any right or remedy consequent upon a breach of such or any other covenant, agreement, term or condition will operate as a waiver of such or any other covenant, agreement, term or condition of this Agreement. Any party to this Agreement, by notice given in accordance with Section 6.01, may, but will not be under any obligation to, waive any of its rights or conditions to its obligations under this Agreement, or any duty, obligation or covenant of any other party hereto. No waiver will affect or alter the remainder of this Agreement and each and every covenant, agreement, term and condition hereof will continue in full force and effect with respect to any other then existing or subsequent breach. The rights and remedies provided by this Agreement are cumulative and the exercise of any one right or remedy by any party will not preclude or waive its right to exercise any or all other rights or remedies.

Section 6.04 *Assignment*. Neither this Agreement nor any of the rights, interests or obligations hereunder will be assigned prior to the Closing (including by operation of law, in a merger or other business combination) by any of the parties hereto without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and permitted assigns.

Section 6.05 *Integration*. This Agreement and the Transaction Agreement (including the schedules and exhibits hereto and thereto) constitute the entire agreement among the parties hereto pertaining to the subject matter hereof and supersede all prior agreements and understandings of the parties in connection herewith, and no covenant, representation or condition not expressed herein or therein will affect, or be effective to interpret, change or restrict, the express provisions of this Agreement.

Section 6.06 *Captions*. The captions herein are included for convenience of reference only and will be ignored in the construction or interpretation hereof.

Section 6.07 *Counterparts*. This Agreement may be executed in one or more counterparts, all of which will be considered one and the same instrument and will become effective when one or more counterparts have been signed by each of the parties hereto and delivered to the other parties hereto, it being understood that all parties hereto need not sign the same counterpart.

Section 6.08 *Severability*. Each provision of this Agreement will be considered separable and if for any reason any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other Persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties hereto further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such illegal, void or unenforceable provision.

Section 6.09 *Governing Law*. This Agreement will be governed by and construed in accordance with the laws of the State of Delaware without giving effect to the conflicts of law principles thereof.

Section 6.10 *Jurisdiction*. Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the Delaware Chancery Courts, or, if the Delaware Chancery Courts do not have subject matter jurisdiction, in the state courts of the State of Delaware located in Wilmington, Delaware, or in the United States District Court for any district within such state, for the purpose of any suit, action or other proceeding arising out of this Agreement or the Transactions. Each party agrees that service of any process, summons, notice or document by U.S. registered mail to such party s respective address in accordance with Section 6.01 will be effective service of process for any action, suit or proceeding in Delaware with respect to any matters to which it has submitted to jurisdiction in this Section 6.10. Each party hereto irrevocably and unconditionally waives and agrees not to plead or claim any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably and unconditionally waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

Section 6.11 *WAIVER OF JURY TRIAL*. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS.

Section 6.12 *Specific Performance*. Each of the parties to this Agreement agrees that the other parties hereto would be irreparably damaged if any of the provisions of this Agreement are not performed in accordance with its specific terms and that monetary damages would not provide an adequate remedy in such event. Accordingly, in addition to any other remedy to which the nonbreaching parties may be entitled, at law or in equity, the nonbreaching parties may be entitled to injunctive relief to prevent breaches of this Agreement and to specifically enforce the terms and provisions hereof.

Section 6.13 *Amendments*. This Agreement may be amended by an instrument in writing signed on behalf of each of the parties hereto at any time before or after the adoption of this Agreement by their respective stockholders; *provided*, *however*, that after any such adoption, there will be made no amendment that by Law requires further approval by such stockholders without the further approval of such stockholders.

Section 6.14 *Interpretation*. When a reference is made in this Agreement to Exhibits, Schedules, Articles or Sections, such reference will be to an Exhibit, Schedule, Article or Section to this Agreement unless otherwise indicated. The words include, includes, included, and including, when used herein will be deemed in each case to be followed by t words without limitation. The words hereof, herein, hereby, and hereunder and words of similar import when us this Agreement will refer to this Agreement as a whole and not to any particular provision of this Agreement. The words date hereof will refer to the date of this Agreement. The term or is not exclusive and means and/or unless the context in which such phrase is used will dictate otherwise. The word extent in the phrase to the extent will mean the degree to which a subject or other such thing extends, and such phrase will not mean simply if unless the context in which such phrase is used dictates otherwise. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. The Article and Section headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement. Whenever the context may require, any pronoun will include the corresponding masculine, feminine and neuter forms. Any reference in this Agreement to a Person will be deemed to be a reference to such Person and any successor (by merger, consolidation, transfer or otherwise) to all or substantially all its assets.

Section 6.15 *Rules of Construction*. Each of the parties to this Agreement agrees that they have been represented by counsel during the negotiation, preparation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and Plan of Merger as of the date first written above.

DISCOVERY HOLDING COMPANY

By: /s/ Charles Y. Tanabe

Name: Charles Y. Tanabe
Title: Senior Vice President

DISCOVERY COMMUNICATIONS, INC.

By: /s/ Charles Y. Tanabe

Name: Charles Y. Tanabe

Title: Senior Vice President

DHC MERGER SUB, INC.

By: /s/ Charles Y. Tanabe

Name: Charles Y. Tanabe

Title: Senior Vice President

[Signature Page to Merger Agreement]

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Appendix D

FORM OF
RESTATED CERTIFICATE OF INCORPORATION
OF
DISCOVERY COMMUNICATIONS, INC.

DISCOVERY COMMUNICATIONS, INC., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

(1) The name of the Corporation is Discovery Communications, Inc. The original Certificate of Incorporation of the Corporation was filed on April 28, 2008.

(2) This Restated Certificate of Incorporation amends and restates the Certificate of Incorporation of the Corporation.

(3) This Restated Certificate of Incorporation has been duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware.

(4) This Restated Certificate of Incorporation shall become effective upon its filing with the Secretary of State of the State of Delaware.

(5) Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, the text of the Certificate of Incorporation is hereby amended and restated to read in its entirety as follows:

ARTICLE I

NAME

The name of the corporation is Discovery Communications, Inc. (the Corporation).

ARTICLE II

REGISTERED OFFICE

The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle, 19808. The name of its registered agent at such address is the Corporation Service Company.

ARTICLE III

PURPOSE

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware (as the same may be amended from time to time, DGCL).

ARTICLE IV

AUTHORIZED STOCK

The total number of shares of capital stock which the Corporation shall have authority to issue is four billion (4,000,000,000) shares, of which three billion eight hundred million (3,800,000,000) shares shall be of a class designated as Common Stock, par value $0.01 per share (Common Stock), such class to be issuable in series as follows:

a. One billion seven hundred million (1,700,000,000) shares of Common Stock shall be of a series designated as Series A Common Stock (the Series A Common Stock);

b. One hundred million (100,000,000) shares of Common Stock shall be of a series designated as Series B Common Stock (the Series B Common Stock);

c. Two billion (2,000,000,000) shares of Common Stock shall be of a series designated as Series C Common Stock (the Series C Common Stock);

and two hundred million (200,000,000) shares shall be of a class designated as Preferred Stock, par value $0.01 per share (Preferred Stock), such class to be issuable in series as follows:

d. Seventy five million (75,000,000) shares of Preferred Stock shall be of a series designated as Series A Convertible Participating Preferred Stock (the Series A Preferred Stock);

e. Seventy five million (75,000,000) shares of Preferred Stock shall be of a series designated as Series C Convertible Participating Preferred Stock (the Series C Preferred Stock and, together with the Series A Preferred Stock, the Convertible Preferred Stock); and

f. Fifty million (50,000,000) shares of Preferred Stock which are undesignated as to series and are issuable in accordance with the provisions of Article IV, Section D (the Series Preferred Stock).

Other than shares issued in connection with (x) the Merger (as defined in the Merger Agreement), (y) the exercise of any stock options or stock appreciation rights of the Corporation outstanding immediately following the effectiveness of the Merger, or (z) a Share Distribution in accordance with Article IV, Section B.4(a) below (such issuance pursuant to clause (x), (y) or (z) above, a Permitted Series B Share Issuance), so long as any shares of Series B Common Stock are issued and outstanding, the Corporation shall not issue, or enter into any agreement to issue, any shares of Series B Common Stock without the prior consent of the holders of at least 75% of the outstanding shares of Series B Common Stock, voting as a separate class (such consent of the holders of Series B Common Stock, a Series B Consent). The Series B Consent may be obtained at a meeting of stockholders of the Corporation or by written consent pursuant to Article VI, Section B of this Restated Certificate of Incorporation (as it may from time to time hereafter be amended or restated, the Restated Certificate).

The description of the Common Stock and the Preferred Stock of the Corporation, and the relative rights, preferences and limitations thereof, or the method of fixing and establishing the same, are as hereinafter set forth in this Article IV.

SECTION A

CERTAIN DEFINITIONS AND INTERPRETATIONS

Unless the context otherwise requires, the terms defined below shall have, for all purposes of this Restated Certificate, the meanings herein specified:

Affiliate means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries Controls, is Controlled by, or is under common Control with such Person.

ANPP means Advance/Newhouse Programming Partnership, a New York general partnership.

ANPP Permitted Transferee means a Person that acquires record and Beneficial Ownership of shares of Series A Preferred Stock from a member of the ANPP Stockholder Group or an ANPP Permitted Transferee, in each case, in a Permitted Transfer.

ANPP Stockholder Group means Advance Publications, Inc., Newhouse Broadcasting Corporation and, as of the date of determination, any direct or indirect Subsidiary of Advance Publications, Inc. or Newhouse Broadcasting

Corporation.

Annual Business Plan means for any fiscal year of the Corporation, a comprehensive statement of the objectives and projections of the Corporation (including its Subsidiaries) with respect to the operations of its business, including objectives and projections concerning capital expenditures, cable television programming developments, license fees, subscriber discounts, revenues and expenses.

Base Amount means the sum of (x) the number of shares of Series A Preferred Stock issued to the members of the ANPP Stockholder Group as of the Issue Date (other than any such shares of Series A Preferred Stock that are Escrow Shares as of the Issue Date) and (y) as of the date of determination, the number of Released Series A Shares.

Beneficial Ownership or *Beneficially Own* has the meaning given to such term in Rule 13d-3 under the Securities Exchange Act of 1934, as amended; provided, however, that for purposes of determining Beneficial Ownership, (i) a Person shall be deemed to be the Beneficial Owner of any securities which such Person has the right to acquire (whether such right is exercisable immediately or only after the passage of time or occurrence of conditions) pursuant to any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities) or upon the exercise of conversion rights, exchange rights, warrants, options, rights or otherwise, and (ii) a Person shall not be deemed the Beneficial Owner of, or to Beneficially Own, securities that such Person has a right to acquire upon the exercise of Rights.

Board of Directors or *Board* means the Board of Directors of the Corporation and, unless the context indicates otherwise, also means, to the extent permitted by law, any committee thereof authorized, with respect to any particular matter, to exercise the power of the Board of Directors of the Corporation with respect to such matter.

Business Day means any day other than a Saturday, Sunday or a day on which banks are required or permitted to close in New York, New York.

capital stock means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in corporate stock (however designated).

Capitalized Lease Obligations of any Person means any obligations to pay rent or other amounts under a lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and the amount of such obligations at any time will be the capitalized amount thereof at such time determined in accordance with GAAP.

Cash Flow means for any Person, for any period, gross operating revenues of such Person and any entities required to be consolidated with such Person on a financial statement in accordance with GAAP (the Consolidated Group) for such period derived in the ordinary course of business from continuing operations minus all operating expenses from continuing operations of such Consolidated Group for such period, including, without limitation, technical, programming, selling, advertising, general and administrative expenses and corporate overhead incurred to the extent deducted in calculating operating income by such Consolidated Group during such period and all income taxes paid, but excluding depreciation, amortization, deferred taxes and other non-cash charges and interest expense, all the foregoing otherwise being determined in accordance with GAAP. Interest income, extraordinary items and gains or losses on sales or dispositions of property will be excluded from the calculation of Cash Flow. In the event of a sale, transfer or other disposition of any asset by any member of the Consolidated Group during any period, Cash Flow will be adjusted (x) to give effect to such sale, transfer or other disposition by excluding from Cash Flow the actual cash flow derived from such asset as if such sale, transfer or other disposition occurred on the first day of such period, and (y) by adding to Cash Flow all sale, transfer and other disposition-related operating expenses incurred by such member in connection with the sale, transfer or other disposition of such asset. In the event of an acquisition of any asset by any member of the Consolidated Group during any period, Cash Flow will be adjusted (x) to give effect to such acquisition by including in Cash Flow the actual cash flow derived from such asset as if such acquisition occurred on the first day of such period, and (y) by adding to Cash Flow all acquisition-related operating expenses incurred by such member in connection with the acquisition of such asset.

Cause means (1) commission of an act of fraud, misappropriation, embezzlement or similar conduct against the Corporation, (2) conviction of, or plea of guilty or *nolo contendere* to, any crime (whether or not involving the Corporation) constituting a felony, or (3) the willful engaging by the director in misconduct that is materially injurious to the Corporation or its Subsidiaries, monetarily or otherwise; provided that, for purposes of this subclause (3), no action or failure to act on a director s part shall be considered willful unless done, or omitted to be done, by the director in bad faith and without reasonable belief that such action or omission was in the best interests of the Corporation.

Commission means the Securities and Exchange Commission, and any successor commission or agency having similar powers.

Company Rights Plan means the Rights Agreement, dated as of [ ], 2008, between the Corporation and Computershare Trust Company, N.A., as Rights Agent (and any successor or substitute shareholder rights plan).

Control means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by agreement, or otherwise. The terms Controls , Controlled and Controlling will have corresponding meanings.

Conversion Shares means the Series A Conversion Shares and shares of Common Stock or other securities of the Corporation issued or issuable upon conversion of the shares of Series C Preferred Stock.

Convertible Securities means (x) any securities of the Corporation (other than any series of Common Stock) that are directly or indirectly convertible into or exchangeable for, or that evidence the right to purchase, directly or indirectly, securities of the Corporation or any other Person, whether upon conversion, exercise, exchange, pursuant to anti-dilution provisions of such securities or otherwise, and (y) any securities of any other Person that are directly or indirectly convertible into or exchangeable for, or that evidence the right to purchase, directly or indirectly, securities of such Person or any other Person (including the Corporation), whether upon conversion, exercise, exchange, pursuant to anti-dilution provisions of such securities or otherwise.

Debt Service means for any period, the sum of (x) all principal due and payable with respect to any item of Indebtedness during such period and (y) all interest, premium, commitment, and other recurring or nonrecurring charges that are payable and should be accrued in accordance with GAAP with respect to any item of Indebtedness during such period.

Discovery means Discovery Communications Holding, LLC, a Delaware limited liability company.

Escrow Shares means any shares of Series A Preferred Stock or shares of Series C Preferred Stock that, on any date of determination, are held by [ ], as Escrow Agent, pursuant to the Escrow Agreement, dated as of [ ], 2008 (the Escrow Agreement), by and among ANPP, the Corporation and the Escrow Agent.

GAAP means generally accepted accounting principles as accepted by the accounting profession in the United States as in effect from time to time.

Indebtedness means with respect to any Person, any indebtedness or obligations, direct or indirect, secured or unsecured, contingent or otherwise (whether or not the recourse of the lender is to the whole of the assets of such Person or only to a portion thereof) for borrowed money, and any deposits or advances of any kind held by such Person, and all obligations with respect to which interest charges are customarily paid, and all obligations evidenced by bonds, notes, debentures or similar instruments or representing the balance deferred and unpaid of the purchase price of any property or payment for any services (other than accounts payable to suppliers incurred in the ordinary course of business and paid in the ordinary course of business), if and to the extent any of the foregoing obligations or indebtedness would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, and will also include, to the extent not otherwise included (but without duplication), (i) any Capitalized Lease Obligations, (ii) obligations secured by a lien to which the property or assets owned or held by such Person are subject, whether or not the obligation or obligations secured thereby will have been assumed, (iii) any obligations, contingent or otherwise, guaranteeing or having the economic effect of guaranteeing any debt or obligation of any other Person, (iv) the face value of any letters of credit and bankers acceptances less amounts drawn thereunder and for which reimbursement has been made, (v) the amount of any obligations of such Person under conditional sales and title retention agreements and (vi) obligations of any such Person under any interest rate agreement applicable to any of the foregoing.

Independent Director means a director who satisfies the independence requirements set forth in the Corporate Governance Rules of NASDAQ (or the rules and regulations of the principal securities exchange on which the Corporation s equity securities are then listed) in effect from time to time; *provided, however*, that if, at any particular time, NASDAQ (or the principal securities exchange on which the Corporation s equity securities are then listed) has not then adopted a definition of independent director , Independent Director means a director who, as determined in good faith by the Board (other than the Independent Director in question), has no relationship to the Corporation that may interfere with the exercise of his or her independence in carrying on his or her duties to the Corporation under the DGCL or any other applicable laws.

Issue Date means the date on which shares of Convertible Preferred Stock are first issued.

Junior Stock means, as the context requires, (i) the Common Stock, (ii) any other class or series of capital stock, whether now existing or hereafter created, of the Corporation, other than (A) the Convertible Preferred Stock, (B) any class or series of Parity Stock (except to the extent provided under clause (iii) hereof) and (C) any Senior Stock, and (iii) any class or series of Parity Stock to the extent that it ranks junior to the Convertible Preferred Stock as to dividend rights, rights of redemption and/or rights on liquidation, as the case may be. For purposes of clause (iii) above, a class or series of Parity Stock shall rank junior to the Convertible Preferred Stock as to dividend rights, rights of redemption and/or rights on liquidation if the holders of shares of Convertible Preferred Stock shall be entitled to dividend payments, payments on redemption or payments of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in preference or priority to the holders of shares of such class or series.

Liquidation Preference measured per share of the Convertible Preferred Stock as of the date in question (the Determination Date), means an amount equal to $0.01 (as appropriately adjusted to take into account any stock splits, reverse splits and the like affecting the Convertible Preferred Stock occurring after the Issue Date). In connection with the determination of the Liquidation Preference of a share of Convertible Preferred Stock upon any liquidation, dissolution or winding up of the Corporation, the Determination Date shall be the record date for the distribution of amounts payable to stockholders in connection with any such liquidation, dissolution or winding up.

Maximum Amount means a number of shares of Common Stock equal to (i) 7.5% of the sum of (A) the number of shares of Common Stock of the Corporation outstanding (with Conversion Shares (other than Conversion Shares issuable in respect of Escrow Shares) deemed outstanding for this purpose) immediately following the effectiveness of the Merger, (B) the number of Conversion Shares issued or issuable in respect of Released Shares as of the date of determination, and (C) the number of shares of Common Stock issuable upon exercise of the Converted Options (as defined in the Merger Agreement); *plus* (ii) the number of Conversion Shares issuable upon conversion of shares of Convertible Preferred Stock issued to the members of the ANPP Stockholder Group upon the effectiveness of the Merger (other than any such Conversion Shares issuable in respect of Escrow Shares); *plus* (iii) the number of Conversion Shares issued or issuable in respect of Released Shares as of the date of determination; provided, that, in the event any member of the ANPP Stockholder Group or any ANPP Permitted Transferee Transfers shares of Convertible Preferred Stock or Conversion Shares following the effectiveness of the Merger (other than (1) in a Transfer that constitutes a Permitted Transfer or (2) in a Transfer to the Corporation as a result of the retirement or cancellation of any Escrow Shares pursuant to the terms of the Escrow Agreement) then the amount of shares calculated above will be reduced by such number of shares of Conversion Shares issuable upon conversion of shares of Convertible Preferred Stock, or Conversion Shares, so Transferred. Notwithstanding the foregoing, in the event any member of the ANPP Stockholder Group or any of its Affiliates, or any ANPP Permitted Transferee or any of its Affiliates (x) acquires, or enters into any agreement, arrangement or understanding to acquire, Beneficial Ownership of shares of Common Stock following the effectiveness of the Merger, or (y) Transfers or enters into any agreement, arrangement or understanding to Transfer, Beneficial Ownership of shares of Convertible Preferred Stock to any third party, then such acquisition or Transfer, as the case may be, will be deemed, upon the execution or entry of any such agreement, arrangement or understanding or the consummation of any such acquisition or Transfer, to result in the Maximum Amount being exceeded to the extent that after giving effect to such acquisition of Beneficial Ownership of shares of Common Stock or such Transfer of Beneficial Ownership of shares of Convertible Preferred Stock (other than the Transfer of any Escrow Shares to the Corporation as a result of the retirement or cancellation of any Escrow Shares pursuant to the terms of the Escrow Agreement), the aggregate voting power (stated as a percentage) of all shares of Common Stock Beneficially Owned by the members of the ANPP Stockholder Group and its Affiliates, the ANPP Permitted Transferee and its Affiliates, or such third-party Transferee and its Affiliates (including for these purposes Conversion Shares, other than Conversion Shares issued or issuable in respect of any Escrow Shares), as applicable, would exceed by more than one percentage point the aggregate voting power of the ANPP Stockholder Group to vote with the holders of the Common Stock, voting together as a single class, on matters that may be submitted to a vote of stockholders of the Corporation (other than the election of directors) immediately following the effectiveness of the Merger; provided, that Escrow Shares will be excluded for purposes of calculating whether the one percentage point voting power threshold has been exceeded, and (x) any Released Series A Shares or Series A Conversion Shares and (y) any shares of Common Stock issuable upon exercise of the Converted Options, will, in each case, be deemed to have been outstanding immediately following the effectiveness of the Merger for purposes of calculating whether the one percentage point voting power threshold has been exceeded.

Merger Agreement means the Agreement and Plan of Merger, dated as of June 4, 2008, by and among the Corporation, Discovery Holding Company and DHC Merger Sub, Inc.

NASDAQ means The Nasdaq Stock Market, Inc.

Parity Stock means, as the context requires, any class or series of capital stock, whether now existing or hereafter created, of the Corporation ranking on a parity basis with the Convertible Preferred Stock as to dividend rights, rights of redemption and/or rights on liquidation, as the case may be. Capital stock of any class or series shall rank on a parity basis as to dividend rights, rights of redemption or rights on liquidation with the Convertible Preferred Stock, whether or not the dividend rates, dividend payment dates, redemption or liquidation prices per share or sinking fund or mandatory redemption provisions, if any, are different from those of the Convertible Preferred Stock, if the holders of shares of such class or series shall be entitled to dividend payments, payments on redemption or payments of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in proportion to their respective accrued and unpaid dividends, redemption prices or liquidation prices, respectively, without preference or priority, one over the other, as between the holders of shares of such class or series and the holders of Convertible Preferred Stock. No class or series of capital stock that ranks junior to the Convertible Preferred Stock as to rights on liquidation shall rank or be deemed to rank on a parity basis with the Convertible Preferred Stock as to dividend rights or rights of redemption, unless the instrument creating or evidencing such class or series of capital stock otherwise expressly provides. The Series A Preferred Stock and the Series C Preferred Stock shall each be deemed to be Parity Stock as to each of the other such series.

Permitted Transfer means the Transfer of (i) all shares of Series A Preferred Stock then outstanding, (ii) all shares of Series A Conversion Shares held by such Person Transferring shares of Series A Preferred Stock and its Affiliates, and (iii) all shares of Series A Preferred Stock and Series A Conversion Shares that are Escrow Shares, to any Transferee so long as after giving effect to such Transfer to it, the shares of Convertible Preferred Stock and Common Stock Beneficially Owned by such Transferee and its Affiliates (including any Conversion Shares) immediately following such Transfer do not result in such Transferee and its Affiliates collectively Beneficially Owning a number of shares that is in excess of the Maximum Amount.

Person means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, government or agency or political subdivision thereof, or other entity, whether acting in an individual, fiduciary or other capacity.

Related Party means any Affiliate of a Person; provided, that, for the purposes of this definition only, without limiting the generality of the definition of Affiliate, any Person (First Person) that directly or indirectly owns and has the right to vote or direct the vote (in the election of directors) of securities of another Person (Other Person) constituting 25% or more of the outstanding voting power of such Other Person will be deemed to Control such Other Person, so long as no other securityholder of such Other Person directly or indirectly owns and has the right to vote or direct the vote (in the election of directors) of securities of such Other Person constituting a greater percentage of the outstanding voting power that is owned by such First Person in such Other Person.

Released Series A Shares means any issued and outstanding shares of Series A Preferred Stock that were Escrow Shares, which, as of the date of determination, are no longer subject to the Escrow Agreement.

Released Series C Shares means any issued and outstanding shares of Series C Preferred Stock that were Escrow Shares, which, as of the date of determination, are no longer subject to the Escrow Agreement.

Released Shares means, as of the date of determination, Released Series A Shares and Released Series C Shares.

Rights has the meaning ascribed thereto in the Company Rights Plan (or the comparable right under any successor or substitute shareholder rights plan).

Series A Conversion Shares shares of Common Stock or other securities of the Corporation issued or issuable upon conversion of the shares of Series A Preferred Stock.

Series A Convertible Securities means Convertible Securities convertible into or exercisable or exchangeable for Series A Common Stock.

Series B Convertible Securities means Convertible Securities convertible into or exercisable or exchangeable for Series B Common Stock.

Series C Convertible Securities means Convertible Securities convertible into or exercisable or exchangeable for Series C Common Stock.

Senior Stock means, as the context requires, (i) any class or series of Series Preferred Stock hereafter created, or (ii) any class or series of capital stock, whether now existing or hereafter created, of the Corporation, in each case, ranking prior to the Convertible Preferred Stock as to dividend rights, rights of redemption and/or rights on liquidation, as the case may be. Capital stock of any class or series shall rank prior to the Convertible Preferred Stock as to dividend rights, rights of redemption or rights on liquidation if the holders of shares of such class or series shall be entitled to dividend payments, payments on redemption or payments of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in preference or priority to the holders of shares of Convertible Preferred Stock. No class or series of capital stock that ranks on a parity basis with or junior to the Convertible Preferred Stock as to rights on liquidation shall rank or be deemed to rank prior to the Convertible Preferred Stock as to dividend rights or rights of redemption, notwithstanding that the dividend rate, dividend payment dates, sinking fund provisions, if any, or redemption provisions thereof are different from those of the Convertible Preferred Stock, unless the instrument creating or evidencing such class or series of capital stock otherwise expressly provides. Notwithstanding the foregoing, any class or series of capital stock which requires the Corporation to cumulate or accrue dividends on such shares, or to pay such dividends in shares of capital stock in the event such dividends are not declared and paid during any dividend period applicable to such class or series, or to add any such unpaid dividends to the liquidation or redemption price of any such class or series of capital stock, shall constitute Senior Stock.

Subsidiary when used with respect to any Person, means any other Person (1) of which (x) in the case of a corporation, at least (A) a majority of the equity and (B) a majority of the voting interests are owned or Controlled, directly or indirectly, by such first Person, by any one or more of its Subsidiaries, or by such first Person and one or more of its Subsidiaries or (y) in the case of any Person other than a corporation, such first Person, one or more of its Subsidiaries, or such first Person and one or more of its Subsidiaries (A) owns a majority of the equity interests thereof and (B) has the power to elect or direct the election of a majority of the members of the governing body thereof or otherwise has Control over such organization or entity; or (2) that is required to be consolidated with such first Person for financial reporting purposes under GAAP.

Transaction Agreement means the Transaction Agreement, dated as of June 4, 2008, by and among Discovery Holding Company, the Corporation, DHC Merger Sub, Inc., Advance/Newhouse Programming Partnership, and, with respect to Section 5.14 thereof only, Advance Publications, Inc. and Newhouse Broadcasting Corporation.

Transfer means, directly or indirectly, to sell, transfer, assign, pledge, encumber, hypothecate or similarly dispose of, either voluntarily or involuntarily, or to enter into any contract, option or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation or similar disposition of, any capital stock Beneficially Owned by a stockholder or any interest in any capital stock Beneficially Owned by a stockholder and Transferee means any Person to whom such a Transfer is made.

Wholly-Owned Subsidiary means, as to any Person, a Subsidiary of such Person, 100% of the equity and voting interest in which is owned beneficially or of record, directly and/or indirectly, by such Person.

Underlying Securities means, with respect to any class or series of Convertible Securities, the class or series of securities into which such class or series of Convertible Securities are directly or indirectly convertible, or for which such Convertible Securities are directly or indirectly exchangeable, or that such Convertible Securities evidence the right to purchase or otherwise receive, directly or indirectly.

If, after the effectiveness of the Merger, there is a subdivision, split, stock dividend, combination, reclassification or similar event with respect to any shares of the capital stock of the Corporation, then, in any such event, the numbers and types of shares of such capital stock referred to in this Restated Certificate shall be appropriately adjusted.

SECTION B

SERIES A COMMON STOCK, SERIES B COMMON STOCK AND SERIES C COMMON STOCK

Each share of common stock, par value $0.01 per share (Old Common Stock), of the Corporation issued and outstanding immediately prior to the effectiveness of this Restated Certificate (the time of such effectiveness being referred to herein as the Effective Time) shall be changed into and reclassified into one fully paid and non-assessable share of Series A Common Stock such that at the Effective Time each holder of record of Old Common Stock shall, without further action, be and become the holder of one share of Series A Common Stock for each share of Old Common Stock theretofore held of record by such holder.

Each share of Series A Common Stock, each share of Series B Common Stock and each share of Series C Common Stock shall, except as otherwise provided in this Article IV, Section B, be identical in all respects and shall have equal rights, powers and privileges.

1. *Voting Rights*.

Holders of Series A Common Stock shall be entitled to one vote for each share of such stock held, and holders of Series B Common Stock shall be entitled to ten votes for each share of such stock held, on all matters that may be submitted to a vote of stockholders of the Corporation (regardless of whether such holders are voting together with the holders of all Voting Securities (as defined below), or as a separate class with the holders of one or more series of Common Stock, or as a separate series of Common Stock, or otherwise). Holders of Series C Common Stock shall not be entitled to any voting powers, except as (and then only to the extent) otherwise required by the laws of the State of Delaware. If a vote or consent of the holders of Series C Common Stock should at any time be required by the laws of the State of Delaware on any matter, the holders of Series C Common Stock shall be entitled to 1/100th of a vote on such matter for each share of Series C Common Stock held. Except as may otherwise be required by the laws of the State of Delaware or as may otherwise be provided in this Restated Certificate, or, with respect to any series of Series Preferred Stock, in any resolution or resolutions establishing such series pursuant to authority vested in the Board of Directors by Article IV of this Restated Certificate, the holders of outstanding shares of Series A Common Stock, the holders of outstanding shares of Series B Common Stock, the holders of outstanding shares of Series A Preferred Stock, and the holders of outstanding shares of each series of Series Preferred Stock entitled to vote thereon, if any, shall vote as one class with respect to all matters to be voted on by stockholders of the Corporation (excluding, with respect to the Series A Preferred Stock, the election of directors and any matter provided by Section 242 of the DGCL, but including, without limitation, and irrespective of the provisions of Section 242(b)(2) of the DGCL, any proposed amendment to this Restated Certificate that would (x) increase (i) the number of authorized shares of Common Stock or any series thereof, (ii) the number of authorized shares of Preferred Stock or any series thereof or (iii) the number of authorized shares of any other class or series of capital stock of the Corporation hereafter established or (y) decrease (i) the number of authorized shares of Common Stock or any series thereof, (ii) the number of authorized shares of Preferred Stock or any series thereof or (iii) the number of authorized shares of any other class or series of capital stock of the Corporation hereafter established (but not below the number of shares of such class or series of capital stock, as the case may be, then outstanding)), and no separate class or series vote or consent of the holders of shares of any class or series of capital stock of the Corporation shall be required for the approval of any such matter. As provided for in Article V of this Restated Certificate, the Series A Preferred Stock Directors shall be elected by the holders of the Series A Preferred Stock (and holders of Series A Common Stock or Series B Common Stock shall have no right to vote or participate in the election of the Series A Preferred Stock Directors), and the Common Stock Directors (as defined in Article V, Section A.2) shall be elected by the holders of the Series A Common Stock, Series B Common Stock and any series of Series Preferred Stock authorized to vote thereon (and the holders of the Series A Preferred Stock shall have no right to vote or participate in the election of the Common Stock Directors). The term Voting Securities means the shares of Series A Common Stock, Series B Common Stock, and, subject to Article IV, Section C.5, shares of Series A Preferred Stock, on an as converted basis, and any series of Series Preferred Stock and any other class or series of securities of the Corporation hereafter established the holders of which are entitled to vote with the holders of the Series A Common Stock and the Series B Common Stock generally upon all matters that may be submitted to a vote of stockholders.

2. *Conversion Rights*.

(a) Each share of Series B Common Stock shall be convertible, at the option of the holder thereof, into one fully paid and non-assessable share of Series A Common Stock. Any such conversion may be effected by any holder of Series B Common Stock by surrendering such holder s certificate or certificates for the Series B Common Stock to be converted, duly endorsed, at the office of the Corporation or any transfer agent for the Series B Common Stock, together with a written notice to the Corporation at such office that such holder elects to convert all or a specified number of shares of Series B Common Stock represented by such certificate and stating the name or names in which such holder desires the certificate or certificates representing shares of Series A Common Stock to be issued and, if less than all of the shares of Series B Common Stock represented by one certificate are to be converted, the name or names in which such holder desires the certificate representing such remaining shares of Series B Common Stock to be issued. If so required by the Corporation, any certificate representing shares surrendered for conversion in accordance with this Section shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder of such shares or the duly authorized representative of such holder, and shall, if required by the last sentence of Article IV, Section B.2(b), be accompanied by payment, or evidence of payment, of applicable issue or transfer taxes. Promptly thereafter, the Corporation shall issue and deliver to such holder or such holder s nominee or nominees, a certificate or certificates representing the number of shares of Series A Common Stock to which such holder shall be entitled as herein provided. If less than all of the shares of Series B Common Stock represented by any one certificate are to be converted, the Corporation shall issue and deliver to such holder or such holder s nominee or nominees a new certificate representing the shares of Series B Common Stock not converted. Such conversion shall be deemed to have been made at the close of business on the date of receipt by the Corporation or any such transfer agent of the certificate or certificates, notice and, if required, instruments of transfer and payment or evidence of payment of taxes referred to above, and the person or persons entitled to receive the Series A Common Stock issuable on such conversion shall be treated for all purposes as the record holder or holders of such Series A Common Stock on that date. A number of shares of Series A Common Stock equal to the number of shares of Series B Common Stock outstanding from time to time shall be set aside and reserved for issuance upon conversion of shares of Series B Common Stock. Shares of Series B Common Stock that have been converted hereunder shall become treasury shares that may be issued or retired by resolution of the Board of Directors. Shares of Series A Common Stock and shares of Series C Common Stock shall not be convertible into shares of any other series of Common Stock.

(b) The Corporation shall pay any and all documentary, stamp or similar issue or transfer taxes that may be payable in respect of the issue or delivery of certificates representing shares of Common Stock on conversion of shares of Series B Common Stock pursuant to this Article IV, Section B.2. The Corporation shall not, however, be required to pay any tax that may be payable in respect of any issue or delivery of certificates representing any shares of Common Stock in a name other than that in which the shares of Series B Common Stock so converted were registered and no such issue or delivery shall be made unless and until the person requesting the same has paid to the Corporation the amount of any such tax or has established to the satisfaction of the Corporation that such tax has been paid.

3. *Dividends*.

Whenever a dividend, other than a dividend that constitutes a Share Distribution, is paid to the holders of any series of Common Stock then outstanding, the Corporation shall also pay to the holders of each other series of Common Stock then outstanding an equal dividend per share. Dividends shall be payable only as and when declared by the Board of Directors of the Corporation out of assets of the Corporation legally available therefor. Whenever a Share Distribution is paid to the holders of any series of Common Stock then outstanding, the Corporation shall also pay a Share Distribution to the holders of each other series of Common Stock then outstanding, as provided in Article IV, Section B.4 below. For purposes of this Article IV, Section B.3 and Article IV, Section B.4 below, a Share Distribution means a dividend or distribution (including a distribution made in connection with any dissolution, winding up or full or partial liquidation of the Corporation) payable in shares of any class or series of capital stock, Convertible Securities or other securities of the Corporation or any other Person.

4. Share Distributions.

If at any time a Share Distribution is to be made with respect to any series of Common Stock, such Share Distribution may be declared and paid only as follows:

(a) a Share Distribution (i) consisting of shares of Series C Common Stock or Series C Convertible Securities may be declared and paid to holders of Series A Common Stock, Series B Common Stock and Series C Common Stock, on an equal per share basis, or (ii) consisting of (x) shares of Series A Common Stock or Series A Convertible Securities may be declared and paid to holders of Series A Common Stock, on an equal per share basis, (y) shares of Series B Common Stock or Series B Convertible Securities may be declared and paid to holders of Series B Common Stock, on an equal per share basis, and (z) shares of Series C Common Stock or Series C Convertible Securities may be declared and paid to holders of Series C Common Stock, on an equal per share basis; or

(b) subject to Section B.4(c) below, a Share Distribution consisting of any class or series of securities of the Corporation or any other Person other than Series A Common Stock, Series B Common Stock or Series C Common Stock (or Series A Convertible Securities, Series B Convertible Securities or Series C Convertible Securities), may be declared and paid on the basis of a distribution of (i) identical securities, on an equal per share basis, to holders of Series A Common Stock, Series B Common Stock and Series C Common Stock, (ii) separate classes or series of securities, on an equal per share basis, to the holders of each such series of Common Stock or (iii) a separate class or series of securities to the holders of one or more series of Common Stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of Common Stock; provided, that, in connection with a Share Distribution pursuant to clause (ii) or clause (iii), (1) such separate classes or series of securities (and, if the distribution consists of Convertible Securities, the Underlying Securities) do not differ in any respect other than their relative voting rights (and any related differences in designation, conversion, redemption and share distribution provisions, as applicable), with holders of shares of Series B Common Stock receiving the class or series of securities having (or convertible into or exercisable or exchangeable for securities having) the highest relative voting rights and the holders of shares of each other series of Common Stock receiving securities of a class or series having (or convertible into or exercisable or exchangeable for securities having) lesser relative voting rights, in each case, without regard to whether such rights differ to a greater or lesser extent than the corresponding differences in voting rights (and any related differences in designation, conversion, redemption and share distribution, as applicable) among the Series A Common Stock, the Series B Common Stock and the Series C Common Stock, and (2) in the event the securities to be received by the holders of shares of Common Stock other than the Series B Common Stock consist of different classes or series of securities, with each such class or series of securities (or the Underlying Securities into which such class or series is convertible or for which such class or series is exercisable or exchangeable) differing only with respect to the relative voting rights of such class or series (and any related differences in designation, conversion, redemption and share distribution provisions, as applicable), then such classes or series of securities will be distributed to the holders of each series of Common Stock (other than the Series B Common Stock) (A) as the Board of Directors determines or (B) such that the relative voting rights (and any related differences in designation, conversion, redemption and share distribution provisions, as applicable) of the class or series of securities (or the Underlying Securities) to be received by the holders of each series of Common Stock (other than the Series B Common Stock) corresponds to the extent practicable to the relative voting rights (and any related differences in designation, conversion, redemption and share distribution provisions, as applicable) of such series of Common Stock, as compared to the other series of Common Stock (other than the Series B Common Stock).

(c) So long as any shares of Series B Common Stock are issued and outstanding, unless a Series B Consent has been received approving the terms of such Share Distribution, (i) no Share Distribution may be declared or paid if the securities to be received by the holders of the Series C Common Stock in such Share Distribution (and, if the Share Distribution consists of Convertible Securities, the Underlying Securities with respect thereto) are entitled to vote with respect to matters upon which security holders of the issuer thereof are generally entitled to vote (other than to an extent no greater than the holders of Series C Common Stock are entitled to vote upon matters as provided in this Restated Certificate); and (ii) no Share Distribution of securities entitled to vote generally upon matters that may be submitted to a vote of security holders of the issuer thereof, whether consisting of any class or series of securities of the Corporation or any other Person (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase such securities), may be declared or paid unless the securities to be received by the holders of Series B Common Stock in such Share Distribution (and, if the Share Distribution consists of Convertible Securities, the Underlying Securities with respect thereto) at all times have voting power with respect to matters upon which security holders of the issuer thereof are generally entitled to vote per share or other unit (Per Share Voting Power) of not less than ten times the Per Share Voting Power of the securities (and, if the Share Distribution consists of Convertible Securities, the Underlying Securities with respect thereto) to be received in such Share Distribution by the holders of each other series of Common Stock receiving securities entitled to such voting power, if any.

5. *Reclassification*.

The Corporation shall not reclassify, subdivide or combine one series of Common Stock without reclassifying, subdividing or combining each other series of Common Stock, on an equal per share basis. Any such reclassification, subdivision or combination must also satisfy the requirements set forth in Article VII of this Restated Certificate.

6. *Liquidation and Dissolution*.

In the event of a liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, after payment or provision for payment of the debts and liabilities of the Corporation and subject to the prior payment in full of the preferential amounts to which any series of Series Preferred Stock and the Convertible Preferred Stock are entitled, the holders of shares of Series A Common Stock, the holders of shares of Series B Common Stock, the holders of shares of Series C Common Stock and the holders of shares of Convertible Preferred Stock shall share equally, on a share for share basis (and, in the case of the Convertible Preferred Stock, on an as converted into Common Stock basis), in the assets of the Corporation remaining for distribution to the holders of Common Stock. Neither the consolidation or merger of the Corporation with or into any other Person or Persons nor the sale, transfer or lease of all or substantially all of the assets of the Corporation shall itself be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Article IV, Section B.6.

SECTION C

SERIES A PREFERRED STOCK AND SERIES C PREFERRED STOCK

The Convertible Preferred Stock shall have the following preferences, limitations and relative rights.

1. *Dividends*.

(a) *Cash Dividend Rights*. Subject to the prior preferences and other rights of any Senior Stock and the provisions of Article IV, Section C.3 hereof, the holders of shares of Convertible Preferred Stock shall be entitled to receive cash dividends per share in an amount (the Participating Dividend) equal to the product of (x) the amount of the cash dividend declared and to be paid on a single share of Common Stock and (y) the number of shares of Common Stock into which a share of Convertible Preferred Stock may be converted as of the record date for the determination of holders of Common Stock entitled to receive such dividend. Except for a dividend of the Rights pursuant to the Company Rights Plan (a Rights Dividend), the Participating Dividends shall be the only dividends payable to holders of Convertible Preferred Stock and such Participating Dividends shall be declared and paid only when, as and if a cash dividend is declared and paid upon the outstanding shares of Common Stock. Dividends or distributions on the Common Stock which are paid or made in Common Stock or other securities, properties or other assets of the Corporation or any other Person other than cash shall not constitute Participating Dividends and holders of Convertible Preferred Stock shall have no rights with respect thereto, other than as may be provided in Article IV, Section C.4. Participating Dividends shall be payable to holders of record of shares of Convertible Preferred Stock as of the record date for the determination of holders of Common Stock entitled to receive such dividend and shall be payable on the payment date established by the Corporation for the payment of such cash dividend to holders of Common Stock. To the extent that the Convertible Preferred Stock is, at the time of the declaration of any such cash dividend, convertible into any other securities of the Corporation in addition to or in lieu of being convertible into Common Stock, then the Corporation shall pay to the holders of Convertible Preferred Stock, in addition to the amount of the dividend calculated above in respect of the number of shares of Common Stock into which such share of Convertible Preferred Stock is then convertible, if any, an amount equal to the amount of the dividend payable per share or other unit of securities into which the Convertible Preferred Stock is then convertible multiplied by the number of shares or other units issuable to such holder upon conversion of a share of Convertible Preferred Stock.

(b) *Method of Payment*. All dividends (other than a Rights Dividend) payable with respect to the shares of Convertible Preferred Stock pursuant to Article IV, Section C.1(a) shall be declared and paid in cash. All cash dividends paid with respect to the shares of Convertible Preferred Stock pursuant to Article IV, Section C.1(a) shall be paid *pro rata* to all the holders of shares of Convertible Preferred Stock outstanding on the applicable record date, on an as converted basis.

2. *Distribution Upon Liquidation, Dissolution or Winding Up*. Subject to the prior payment in full of the preferential amounts to which any Senior Stock is entitled, in the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of Convertible Preferred Stock shall be entitled to receive from the assets of the Corporation available for distribution to stockholders, before any payment or distribution shall be made to the holders of any Junior Stock, an amount in cash or property at its fair market value, as determined by the Board of Directors in good faith, or a combination thereof, per share, equal to the Liquidation Preference of a share of Convertible Preferred Stock as of the date of payment or distribution, which payment or distribution shall be made *pari passu* with any such payment or distribution made to the holders of any Parity Stock ranking on a parity basis with the Convertible Preferred Stock with respect to distributions upon liquidation, dissolution or winding up of the Corporation. Following the payment of all amounts owing to holders of each class or series of capital stock of the Corporation having a preference or priority over the Common Stock as to distributions upon the liquidation, dissolution or winding up of the Corporation, then the holders of the Convertible Preferred Stock shall be entitled to participate, with the holders of the Common Stock and with the holders of any other securities of the Corporation entitled to participate, *pro rata*, based upon the number of shares of Common Stock into which the shares of Convertible Preferred Stock are then convertible, as to any amounts remaining for distribution to the holders of Common Stock upon the liquidation, dissolution or winding up of the Corporation. If, upon distribution of the Corporation s assets in liquidation, dissolution or winding up, the assets of the Corporation to be distributed among the holders of the Convertible Preferred Stock and to all holders of any Parity Stock ranking on a parity basis with the Convertible Preferred Stock with respect to distributions upon liquidation, dissolution or winding up shall be insufficient to permit payment in full to such holders of the respective preferential amounts to which they are entitled, then the entire assets of the Corporation to be distributed to holders of the Convertible Preferred Stock and such Parity Stock shall be distributed to such holders based upon and in proportion to the full preferential amounts to which the shares of Convertible Preferred Stock and such Parity Stock would otherwise be entitled. Neither the consolidation or merger of the Corporation with or into any other corporation or corporations nor the sale, transfer or lease of all or substantially all of the assets of the Corporation shall itself be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Article IV, Section C.2. Notice of the liquidation, dissolution or winding up of the Corporation shall be given, not less than 20 days prior to the date on which such liquidation, dissolution or winding up is expected to take place or become effective, to the holders of record of the shares of Convertible Preferred Stock.

3. *Limitations on Dividends*. If at any time the Corporation shall have declared a dividend on the Convertible Preferred Stock and failed to pay or set aside consideration sufficient to pay such dividend, or if the Corporation declares a cash dividend on the shares of Common Stock and fails to pay or set aside the Participating Dividend required to be paid to the holders of the Convertible Preferred Stock, then (i) the Corporation shall not declare or pay any dividend on or make any distribution with respect to any Parity Stock or Junior Stock or set aside any money or assets for any such purpose until such dividend payable to the holders of Convertible Preferred Stock has been paid or

consideration sufficient to pay such dividend has been set aside for such purpose, and (ii) neither the Corporation nor any Subsidiary thereof shall redeem, exchange, purchase or otherwise acquire any shares of Convertible Preferred Stock, Parity Stock or Junior Stock, or set aside any money or assets for any such purpose, a sinking fund or otherwise, unless all then outstanding shares of any class or series of Parity Stock that by the terms of the instrument creating or evidencing such Parity Stock is required to be redeemed under such circumstances are redeemed or exchanged pursuant to the terms hereof and thereof.

Neither the Corporation nor any Subsidiary thereof shall redeem, exchange, purchase or otherwise acquire any Parity Stock or Junior Stock, or set aside any money or assets for any such purpose, if after giving effect to such redemption, exchange, purchase or other acquisition, the amount (as determined by the Board of Directors in good faith) that would be available for distribution to the holders of the Convertible Preferred Stock upon liquidation, dissolution or winding up of the Corporation if such liquidation, dissolution or winding up were to occur on the date fixed for such redemption, exchange, purchase or other acquisition of such Parity Stock or Junior Stock would be less than the aggregate Liquidation Preference as of such date of all shares of Convertible Preferred Stock then outstanding.

Nothing contained in this Article IV, Section C.3 shall prevent (i) the payment of dividends on any Junior Stock solely in shares of Junior Stock or the redemption, purchase or other acquisition of Junior Stock solely in exchange for (together with a cash adjustment for fractional shares, if any) shares of Junior Stock, or (ii) the payment of dividends on any Parity Stock solely in shares of Parity Stock and/or Junior Stock or the redemption, exchange, purchase or other acquisition of Parity Stock solely in exchange for (together with a cash adjustment for fractional shares, if any), or through the application of the proceeds from the sale of, shares of Parity Stock and/or Junior Stock.

All provisions of this Article IV, Section C.3 are for the sole benefit of the holders of Convertible Preferred Stock and accordingly, if the holders of shares of Convertible Preferred Stock shall have waived (as provided in Article IV, Section C.6) in whole or in part the benefit of the applicable provisions, either generally or in the specific instance, such provision shall not (to the extent of such waiver, in the case of a partial waiver) restrict the redemption, exchange, purchase or other acquisition of, or declaration, payment or making of any dividends or distributions on the Convertible Preferred Stock, any Parity Stock or any Junior Stock.

4. *Conversion*.

(a) *Series A Preferred Stock Optional and Mandatory Conversion*. Each outstanding share of Series A Preferred Stock is convertible at the option of the holder at any time into fully paid and non-assessable full share(s) of Series A Common Stock at the then effective Series A Conversion Rate (as defined below). In addition, (i) the holder of each outstanding share of Series A Preferred Stock shall be deemed to have automatically converted such share into fully paid and non-assessable share(s) of Series A Common Stock at the then effective Series A Conversion Rate immediately upon the Transfer (other than a Transfer that is a Permitted Transfer or a Transfer from one member of the ANPP Stockholder Group to another member of the ANPP Stockholder Group) of such share to any Person, and (ii) the holders of all outstanding shares of Series A Preferred Stock shall be deemed to have automatically converted all such shares of Series A Preferred Stock into fully paid and non-assessable share(s) of Series A Common Stock at such time as the number of issued and outstanding shares of Series A Preferred Stock (other than any such shares that are Escrow Shares as of the date of determination) is less than 80% of the Base Amount. Such conversion pursuant to clauses (i) or (ii) above is referred to herein as the Series A Mandatory Conversion . In the event of a Series A Mandatory Conversion, the share(s) of Series A Preferred Stock subject to such Series A Mandatory Conversion shall be automatically converted into fully paid and non-assessable share(s) of Series A Common Stock at the then effective Series A Conversion Rate without any further action by the Corporation or holders of Series A Preferred Stock and whether or not the certificate(s) representing such share(s) of Series A Preferred Stock are surrendered to the Corporation; and the Corporation shall not be obligated to issue certificate(s) evidencing the share(s) of Series A Common Stock issuable upon such Series A Mandatory Conversion unless the certificate(s) evidencing such share(s) of Series A Preferred Stock are delivered to the Corporation, or the holder thereof notifies the Corporation that such certificate(s) have been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such certificate(s). In case cash, securities or property other than Series A Common Stock shall be payable, deliverable or issuable upon conversion as provided herein, then all references to Series A Common Stock in this Article IV, Section C.4 shall be deemed to apply, so far as appropriate and as nearly as may be, to such cash, property or other securities. Subject to the provisions for adjustment hereinafter set forth in this Article IV, Section C.4, the Series A Preferred Stock may be converted into Series A Common Stock at the initial conversion rate of one fully paid and non-assessable share of Series A Common Stock for each share of Series A Preferred Stock so converted (this conversion rate as from time to time adjusted cumulatively pursuant to the provisions of this Section is hereinafter referred to as the Series A Conversion Rate).

(b) *Series C Preferred Stock Optional and Mandatory Conversion*. Each outstanding share of Series C Preferred Stock is convertible at the option of the holder at any time into fully paid and non-assessable full share(s) of Series C Common Stock at the then effective Series C Conversion Rate. In addition, (i) the holder of each outstanding share of Series C Preferred Stock shall be deemed to have automatically converted such share into fully paid and non-assessable share(s) of Series C Common Stock at the then effective Series C Conversion Rate immediately upon the Transfer of such share to any Person that is not a member of the ANPP Stockholder Group, and (ii) the holders of all outstanding shares of Series C Preferred Stock shall be deemed to have automatically converted all such shares of Series C Preferred Stock into fully paid and non-assessable share(s) of Series C Common Stock at such time as a Series A Mandatory Conversion shall be deemed to have occurred pursuant to Article IV, Section C.4(a)(ii). Such conversion pursuant to (i) or (ii) referred to above is referred to herein as the Series C Mandatory Conversion and, together with any Series A Mandatory Conversion, the Mandatory Conversion . In the event of a Series C Mandatory Conversion, the share(s) of Series C Preferred Stock subject to such Series C Mandatory Conversion shall be automatically converted into fully paid and non-assessable share(s) of Series C Common Stock at the then effective Series C Conversion Rate without any further action by the Corporation or holders of Series C Preferred Stock and whether or not the certificate(s) representing such share(s) of Series C Preferred Stock are surrendered to the Corporation; and the Corporation shall not be obligated to issue certificate(s) evidencing the share(s) of Series C Common Stock issuable upon such Series C Mandatory Conversion unless the certificate(s) evidencing such share(s) of Series C Preferred Stock are delivered to the Corporation, or the holder thereof notifies the Corporation that such certificate(s) have been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection with such certificate(s). In case cash, securities or property other than Series C Common Stock shall be payable, deliverable or issuable upon conversion as provided herein, then all references to Series C Common Stock in this Article IV, Section C.4 shall be deemed to apply, so far as appropriate and as nearly as may be, to such cash, property or other securities. Subject to the provisions for adjustment hereinafter set forth in this Article IV, Section C.4, the Series C Preferred Stock may be converted into Series C Common Stock at the initial conversion rate of one fully paid and non-assessable share of Series C Common Stock for each share of Series C Preferred Stock so converted (this conversion rate as from time to time adjusted cumulatively pursuant to the provisions of this Section is hereinafter referred to as the Series C Conversion Rate and, together with the Series A Conversion Rate, the Conversion Rate).

Notwithstanding anything to the contrary in this Article IV, subject to the provisions for adjustment hereinafter set forth in this Article IV, Section C.4, any provisions in this Article that refers to a conversion of the Convertible Preferred Stock shall mean, (x) in the case of the Series A Preferred Stock, the conversion of the Series A Preferred Stock into the Series A Common Stock and (y) in the case of the Series C Preferred Stock, the conversion of the Series C Preferred Stock into the Series C Common Stock.

(c) *Adjustments for Stock Splits, Stock Dividends, Etc*.

(i) In case after the Issue Date the Corporation shall (1) pay a dividend or make a distribution on its outstanding shares of Series A Common Stock in shares of its Common Stock, (2) subdivide the then outstanding shares of Series A Common Stock into a greater number of shares of Series A Common Stock, (3) combine the then outstanding shares of Series A Common Stock into a smaller number of shares of Series A Common Stock, or (4) issue by reclassification of its shares of Series A Common Stock any shares of any other class of capital stock of the Corporation (including any such reclassification in connection with a merger in which the Corporation is the continuing corporation), then the Series A Conversion Rate in effect immediately prior to the opening of business on the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be adjusted so that the holder of each share of the Series A Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number and kind of shares of capital stock of the Corporation that such holder would have owned or been entitled to receive immediately following such action had such shares of Series A Preferred Stock been converted immediately prior to such time.

(ii) In case after the Issue Date the Corporation shall (1) pay a dividend or make a distribution on its outstanding shares of Series C Common Stock in shares of its Common Stock, (2) subdivide the then outstanding shares of Series C Common Stock into a greater number of shares of Series C Common Stock, (3) combine the then outstanding shares of Series C Common Stock into a smaller number of shares of Series C Common Stock, or (4) issue by reclassification of its shares of Series C Common Stock any shares of any other class of capital stock of the Corporation (including any such reclassification in connection with a merger in which the Corporation is the continuing corporation), then the Series C Conversion Rate in effect immediately prior to the opening of business on the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be adjusted so that the holder of each share of the Series C Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number and kind of shares of capital stock of the Corporation that such holder would have owned or been entitled to receive immediately following such action had such shares of Series C Preferred Stock been converted immediately prior to such time.

(iii) An adjustment made pursuant to this Article IV, Section C.4(c) for a dividend or distribution shall become effective immediately after the record date for the dividend or distribution and an adjustment made pursuant to this Article IV, Section C.4(c) for a subdivision, combination or reclassification shall become effective immediately after the effective date of the subdivision, combination or reclassification. Such adjustment shall be made successively whenever any action listed above shall be taken.

(d) *Adjustments for Rights, Warrants, etc*.

(i) In case the Corporation shall after the Issue Date issue any rights or warrants to all holders of shares of Series A Common Stock entitling them (for a period of not more than 45 days after the record date for the determination of stockholders entitled to receive such rights or warrants) to subscribe for or purchase shares of Series A Common Stock (or Series A Convertible Securities) at a price per share of the Series A Common Stock (or having an initial exercise price or conversion price per share of Series A Common Stock) less than the then current market price per share of such Series A Common Stock on such record date, the number of shares of Series A Common Stock into which each share of Series A Preferred Stock shall thereafter be convertible shall be determined by multiplying the number of shares of Series A Common Stock into which such share of Series A Preferred Stock was theretofore convertible immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Series A Common Stock outstanding on such record date plus the number of additional shares of Series A Common Stock offered for subscription or purchase (or into which the Series A Convertible Securities so offered are initially convertible) and the denominator of which shall be the number of shares of Series A Common Stock outstanding on such record date plus the number of shares of Series A Common Stock, which the aggregate offering price of the total number of shares of Series A Common Stock so offered (or the aggregate initial conversion or exercise price of the Series A Convertible Securities so offered) would purchase at the then current market price per share of Series A Common Stock on such record date. Such adjustment shall be made successively whenever any such rights or warrants are issued and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights or warrants. In the event that all of the shares of Series A Common Stock (or all of the Series A Convertible Securities) subject to such rights or warrants have not been issued when such rights or warrants expire (or, in the case of rights or warrants to purchase Series A Convertible Securities which have been exercised, all of the shares of Series A Common Stock issuable upon conversion of such Series A Convertible Securities have not been issued prior to the expiration of the conversion right thereof), then the Series A Conversion Rate shall be readjusted retroactively to be the Series A Conversion Rate which would then be in effect had the adjustment upon the issuance of such rights or warrants been made on the basis of the actual number of shares of Series A Common Stock (or Series A Convertible Securities) issued upon the exercise of such rights or warrants (or the conversion of such Series A Convertible Securities); but such subsequent adjustment shall not affect the number of shares of Series A Common Stock issued upon the conversion of any share of Series A Preferred Stock prior to the date such subsequent adjustment is made. Any determination of the current market price per share of Series A Common Stock under this

Section shall be in accordance with Article IV, Section C.4(n).

(ii) In case the Corporation shall after the Issue Date issue any rights or warrants to all holders of shares of Series C Common Stock entitling them (for a period expiring not more than 45 days after the record date for the determination of stockholders entitled to receive such rights or warrants) to subscribe for or purchase shares of

Series C Common Stock (or Series C Convertible Securities) at a price per share of Series C Common Stock (or having an initial exercise price or conversion price per share of Series C Common Stock) less than the then current market price per share of Series C Common Stock on such record date, the number of shares of Series C Common Stock into which each share of Series C Preferred Stock shall thereafter be convertible shall be determined by multiplying the number of shares of Series C Common Stock into which such share of Series C Preferred Stock was theretofore convertible immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Series C Common Stock outstanding on such record date plus the number of additional shares of Series C Common Stock offered for subscription or purchase (or into which the Series C Convertible Securities so offered are initially convertible) and of which the denominator shall be the number of shares of Series C Common Stock outstanding on such record date plus the number of shares of Series C Common Stock, which the aggregate offering price of the total number of shares of Series C Common Stock so offered (or the aggregate initial conversion or exercise price of the Series C Convertible Securities so offered) would purchase at the then current market price per share of Series C Common Stock on such record date. Such adjustment shall be made successively whenever any such rights or warrants are issued and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights or warrants. In the event that all of the shares of Series C Common Stock (or all of the Series C Convertible Securities) subject to such rights or warrants have not been issued when such rights or warrants expire (or, in the case of rights or warrants to purchase Series C Convertible Securities which have been exercised, all of the shares of Series C Common Stock issuable upon conversion of such Series C Convertible Securities have not been issued prior to the expiration of the conversion right thereof), then the Series C Conversion Rate shall be readjusted retroactively to be the Series C Conversion Rate which would then be in effect had the adjustment upon the issuance of such rights or warrants been made on the basis of the actual number of shares of Series C Common Stock (or Series C Convertible Securities) issued upon the exercise of such rights or warrants (or the conversion of such Series C Convertible Securities); but such subsequent adjustment shall not affect the number of shares of Series C Common Stock issued upon the conversion of any share of Series C Preferred Stock prior to the date such subsequent adjustment is made. Any determination of the current market price per share of Series C Common Stock under this Section shall be in accordance with Article IV, Section C.4(n).

(e) *Adjustments for Other Distributions and Dividends*.

(i) In case the Corporation shall distribute after the Issue Date to all holders of shares of Series A Common Stock (including any such distribution made in connection with a merger in which the Corporation is the continuing corporation, other than a merger to which Article IV, Section C.4(f) is applicable) any securities, evidences of its indebtedness or assets (other than cash dividends or with respect to stock dividends, subdivisions, combinations or reclassifications on the Series A Common Stock in respect of which an adjustment is made pursuant to Article IV, Section C.4(c)(i) hereof) or rights or warrants to purchase shares of Series A Common Stock or securities convertible into shares of Series A Common Stock (excluding a Rights Dividend and those referred to in Article IV, Section C.4(d)(i) above), then in each such case the number of shares of Series A Common Stock into which each share of Series A Preferred Stock shall thereafter be convertible shall be determined by multiplying the number of shares of Series A Common Stock into which such share was theretofore convertible immediately prior to the record date for the determination of stockholders entitled to receive the distribution by a fraction, the numerator of which shall be the then current market price per share of Series A Common Stock on such record date and the denominator of which shall be such current market price per share of Series A Common Stock less the fair market value on such record date (as determined in good faith by the Board of Directors of the Corporation, whose good faith determination shall be conclusive) of the portion of the securities, assets or evidences of indebtedness or rights or warrants so to be distributed applicable to one share of Series A Common Stock. Such adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the record date for the determination of stockholders entitled to receive such distribution is made. Any determination of the current market price per share of Series A Common Stock under this Section shall be in accordance with Article IV, Section C.4(n).

(ii) In case the Corporation shall distribute after the Issue Date to all holders of shares of Series C Common Stock (including any such distribution made in connection with a merger in which the Corporation is the continuing corporation, other than a merger to which Article IV, Section C.4(f) is applicable) any securities, evidences of its indebtedness or assets (other than cash dividends or with respect to stock dividends, subdivisions, combinations or reclassifications on the Series C Common Stock in respect of which an adjustment is made pursuant to Article IV, Section C.4(c)(ii) hereof) or rights or warrants to purchase shares of Series C Common Stock or securities convertible into shares of Series C Common Stock (excluding a Rights Dividend and those referred to in Article IV, Section C.4(d)(ii) above), then in each such case the number of shares of Series C Common Stock into which each share of Series C Preferred Stock shall thereafter be convertible shall be determined by multiplying the number of shares of Series C Common Stock into which such share was theretofore convertible immediately prior to the record date for the determination of stockholders entitled to receive the distribution by a fraction, the numerator of which shall be the then current market price per share of Series C Common Stock on such record date and the denominator of which shall be such current market price per share of Series C Common Stock less the fair market value on such record date (as determined in good faith by the Board of Directors of the Corporation, whose good faith determination shall be conclusive) of the portion of the securities, assets or evidences of indebtedness or rights or warrants so to be distributed applicable to one share of Series C Common Stock. Such adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the record date for the determination of stockholders entitled to receive such distribution is made. Any determination of the current market price per share of Series C Common Stock under this Section shall be in accordance with Article IV, Section C.4(n).

(f) *Adjustments for Reclassification, Merger, Etc*. In case of any reclassification or change in the Series A Common Stock, Series B Common Stock or Series C Common Stock (other than any reclassification or change referred to in Article IV, Section C.4(c) and other than a change in par value) or in case of any consolidation of the Corporation with any other corporation or any merger of the Corporation into another corporation or of another corporation into the Corporation (other than a merger in which the Corporation is the continuing corporation and which does not result in any reclassification or change (other than a change in par value or any reclassification or change to which Article IV, Section C.4(c) is applicable) in the outstanding Series A Common Stock, Series B Common Stock or Series C Common Stock), or in case of any sale or transfer to another corporation or entity (other than by mortgage or pledge) of all or substantially all of the properties and assets of the Corporation, in any such case after the Issue Date, the Corporation (or its successor in such consolidation or merger) or the purchaser of such properties and assets shall make appropriate provision so that the holder of a share of the Convertible Preferred Stock shall have the right thereafter to convert such share into the kind and amount of shares of stock and other securities and property that such holder would have owned immediately after such reclassification, change, consolidation, merger, sale or transfer if such holder had converted such share immediately prior to the effective date of such reclassification, change, consolidation, merger, sale or transfer (assuming for this purpose (to the extent applicable) that such holder failed to exercise any rights of election and received per share the kind and amount of shares of stock and other securities and property received per share by a plurality of the non-electing shares), and the holders of the Convertible Preferred Stock shall have no other conversion rights under these provisions; provided, that effective provision shall be made, in the articles or certificate of incorporation of the resulting or surviving corporation or otherwise or in any contracts of sale or transfer, so that the provisions set forth herein for the protection of the conversion rights of the Convertible Preferred Stock shall thereafter be made applicable, as nearly as reasonably may be to any such other shares of stock and other securities and property deliverable upon conversion of the Convertible Preferred Stock remaining outstanding or other Convertible Preferred Stock or other Convertible Securities received by the holders of Convertible Preferred Stock in place thereof; and provided, further, that any such resulting or surviving corporation or purchaser shall expressly assume the obligation to deliver, upon the exercise of the conversion privilege, such shares, securities or property as the holders of the Convertible Preferred Stock remaining outstanding, or other Convertible Preferred Stock or other Convertible Securities received by the holders in place thereof, shall be entitled to receive pursuant to the provisions hereof, and to make provisions for the protection of the conversion rights as above provided.

(g) *Notice of Adjustments in Conversion Rates*.

(i) Whenever the Series A Conversion Rate or the conversion privilege shall be adjusted as provided in Article IV, Sections C.4(c)(i), (d)(i), (e)(i) or (f), the Corporation shall promptly cause a notice to be mailed to the holders of record of the Series A Preferred Stock describing the nature of the event requiring such adjustment and the Series A Conversion Rate in effect immediately thereafter, the kind and amount of stock or other securities or property into which the Series A Preferred Stock shall be convertible after such event. In case of an adjustment pursuant to Article IV, Section C.4(e)(i), such notice shall enclose the resolution of the Board of Directors of the Corporation making the fair market value determination of the Series A Common Stock for the purpose of calculating the Series A Conversion Rate. Where appropriate, such notice may be given in advance and included as a part of a notice required to be mailed under the provisions of Article IV, Section C.4(i).

(ii) Whenever the Series C Conversion Rate or the conversion privilege shall be adjusted as provided in Article IV, Sections C.4(c)(ii), (d)(ii), (e)(ii) or (f), the Corporation shall promptly cause a notice to be mailed to the holders of record of the Series C Preferred Stock describing the nature of the event requiring such adjustment, the Series C Conversion Rate in effect immediately thereafter and the kind and amount of stock or other securities or property into which the Series C Preferred Stock shall be convertible after such event. In case of an adjustment pursuant to Article IV, Section C.4(e)(ii), such notice shall enclose the resolution of the Board of Directors of the Corporation making the fair market value determination of the Series C Common Stock for the purpose of calculating the Series C Conversion Rate. Where appropriate, such notice may be given in advance and included as a part of a notice required to be mailed under the provisions of Article IV, Section C.4(i).

(h) *Calculation and Timing of Adjustments*. The Corporation may, but shall not be required to, (i) make any adjustment of the Series A Conversion Rate if such adjustment would require an increase or decrease of less than 1% in the Series A Conversion Rate, or (ii) make any adjustment of the Series C Conversion Rate if such adjustment would require an increase or decrease of less than 1% in the Series C Conversion Rate; provided, however, that, in each case, any adjustments which by reason of this Article IV, Section C.4(h) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article IV, Section C.4(h) shall be made to the nearest 1/100th of a share. In any case in which this Article IV, Section C.4(h) shall require that an adjustment shall become effective immediately after a record date for such event, the Corporation may defer until the occurrence of such event (x) issuing to the holder of any shares of Convertible Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Series A Common Stock or Series C Common Stock, as applicable, or other capital stock issuable upon such conversion by reason of the adjustment required by such event over and above the shares of Series A Common Stock or Series C Common Stock, as applicable, or other capital stock issuable upon such conversion before giving effect to such adjustment and (y) paying to such holder cash in lieu of any fractional interest to which such holder is entitled pursuant to Article IV, Section C.4(n); provided, however, that, if requested by such holder, the Corporation shall deliver to such holder a due bill or other appropriate instrument evidencing such holder s right to receive such additional shares of Series A Common Stock or Series C Common Stock, as applicable, or other capital stock, and such cash, upon the occurrence of the event requiring such adjustment.

(i) *Notice of Certain Events. In case at any time:*

(i) the Corporation shall take any action which would require an adjustment in the Conversion Rate pursuant to Article IV, Section C.4;

(ii) there shall be any capital reorganization or reclassification of the Common Stock (other than a change in par value), or any consolidation or merger to which the Corporation is a party and for which approval of any stockholders of the Corporation is required, or any sale, transfer or lease of all or substantially all of the properties and assets of the Corporation, or a tender offer for shares of Common Stock representing at least a majority of the total voting power represented by the outstanding shares of Common Stock which has been recommended by the Board of Directors as being in the best interests of the holders of Common Stock; or

(iii) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Corporation;

then, in any such event, the Corporation shall give written notice to the holders of the Convertible Preferred Stock at their respective addresses as the same appear on the books of the Corporation, at least twenty days (or ten days in the case of a recommended tender offer as specified in clause (ii) above) prior to any record date for such action, dividend or distribution or the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property, if any, deliverable upon such reorganization, reclassification, consolidation, merger, sale, transfer, lease, tender offer, dissolution, liquidation or winding up, during which period such holders may exercise their conversion rights; provided, however, that any notice required by any event described in clause (ii) of this Article IV, Section C.4(i) shall be given in the manner and at the time that such notice is given to the holders of Common Stock. Without limiting the obligations of the Corporation to provide notice of corporate actions hereunder, the failure to give the notice required by this Article IV, Section C.4(i) or any defect therein shall not affect the legality or validity of any such corporate action of the Corporation or the vote upon such action.

(j) *Procedures for Conversion*. Before any holder of Convertible Preferred Stock shall be entitled to convert the same into Series A Common Stock or Series C Common Stock, as applicable (or, in the case of the Mandatory Conversion, before any holder of Convertible Preferred Stock so converted shall be entitled to receive certificate(s) evidencing the shares of Series A Common Stock, Series C Common Stock or other securities or property, as applicable, issuable upon such conversion), such holder shall surrender the certificate(s) for such Convertible Preferred Stock at the office of the Corporation or at the office of the transfer agent for the Convertible Preferred Stock, which certificate(s), if the Corporation shall so request, shall be duly endorsed to the Corporation or in blank or accompanied by proper instruments of transfer to the Corporation or in blank (such endorsements or instruments of transfer to be in form satisfactory to the Corporation), and shall give written notice to the Corporation at said office that such holder elects to convert all or a part of the shares represented by said certificate(s) (or, in the case of the Mandatory Conversion, that such holder is surrendering the same) in accordance with the terms of this Article IV, Section C.4(j), and shall state in writing therein the name or names in which such holder wishes the certificate(s) for Series A Common Stock, Series C Common Stock or other securities or property, as applicable, to be issued. Every such notice of election to convert shall constitute a contract between the holder of such Convertible Preferred Stock and the Corporation, whereby the holder of such Convertible Preferred Stock shall be deemed to subscribe for the amount of Series A Common Stock, Series C Common Stock or other securities or property, as applicable, which such holder shall be entitled to receive upon conversion of the number of share(s) of Convertible Preferred Stock to be converted, and, in satisfaction of such subscription, to deposit the share(s) of Convertible Preferred Stock to be converted, and thereby the Corporation shall be deemed to agree that the surrender of the shares of Convertible Preferred Stock to be converted shall constitute full payment of such subscription for Series A Common Stock or Series C Common Stock, as applicable, to be issued upon such conversion. The Corporation will as soon as practicable after such deposit of the certificate(s) for Convertible Preferred Stock, accompanied by the written notice and the statement above prescribed, issue and deliver at the office of the Corporation or of said transfer agent to the Person for whose account such Convertible Preferred Stock was so surrendered, or to his nominee(s) or, subject to compliance with applicable law, transferee(s), certificate(s) for the number of full share(s) of Series A Common Stock or Series C Common Stock, as applicable, to which such holder shall be entitled, together with cash in lieu of any fraction of a share as hereinafter provided together with an amount in cash equal to the full amount of any cash dividend declared (or required to be declared) on the Convertible Preferred Stock which, as of the date of such conversion, remains unpaid (provided, that the Corporation will use commercially reasonable efforts to make such delivery within two Business Days after such deposit and such notice and statement). If surrendered certificate(s) for Convertible Preferred Stock are converted only in part, the Corporation will issue and deliver to the holder, or to his nominee(s), without charge therefor, new certificate(s) representing the aggregate of the unconverted shares. Such conversion shall be deemed to have been made as of the date of such surrender of the Convertible Preferred Stock to be converted or date of the event that gives rise to the Mandatory Conversion; and the Person(s) entitled to receive the Series A Common Stock or Series C Common Stock, as applicable, issuable upon conversion of such Convertible Preferred Stock shall be treated for all purposes as the record holder or holders of such Series A Common Stock or Series C Common Stock, as applicable, on such date.

(k) *Transfer Taxes*. The issuance of certificate(s) for share(s) of Series A Common Stock or Series C Common Stock, as applicable, upon conversion of share(s) of Convertible Preferred Stock shall be made without charge for any issue, stamp or other similar tax in respect of such issuance; provided, however, if any such certificate is to be issued in a name other than that of the registered holder of the share(s) of Convertible Preferred Stock converted, the Person(s) requesting the issuance thereof shall pay to the Corporation the amount of any tax which may be payable in respect of any transfer involved in such issuance or shall establish to the satisfaction of the Corporation that such tax has been paid.

(l) *Reservation of Shares*. The Corporation shall reserve and keep available at all times thereafter, solely for the purpose of issuance upon conversion of the outstanding shares of Convertible Preferred Stock, such number of shares of Series A Common Stock and Series C Common Stock as shall be issuable upon the conversion of all outstanding shares of Convertible Preferred Stock; provided, that nothing contained herein shall be construed to preclude the Corporation from satisfying its obligations in respect of the conversion of the outstanding shares of Convertible Preferred Stock by delivery of shares of Series A Common Stock or Series C Common Stock, as applicable, which are held in the treasury of the Corporation. The Corporation shall take all such corporate and other actions as from time to time may be necessary to insure that all shares of Series A Common Stock and Series C Common Stock issuable upon conversion of shares of Convertible Preferred Stock at the applicable Conversion Rate in effect from time to time will, upon issue, be duly and validly authorized and issued, fully paid and nonassessable and free of any preemptive or similar rights.

(m) *Retirement of Convertible Preferred Stock*. All shares of Convertible Preferred Stock received by the Corporation upon conversion thereof shall be retired and shall not be reissued

(n) *Payment in Lieu of Fractional Shares*. The Corporation shall not be required to issue fractional shares of Series A Common Stock or Series C Common Stock, as applicable, or scrip upon conversion of the Convertible Preferred Stock. As to any final fraction of a share of Series A Common Stock or Series C Common Stock, as applicable, which a holder of one or more shares of Convertible Preferred Stock would otherwise be entitled to receive upon conversion of such shares in the same transaction, the Corporation shall make a cash payment in respect of such final fraction in an amount equal to the same fraction of the current market price of a full share of Series A Common Stock or Series C Common Stock as applicable, as determined in good faith by the Board of Directors. For the purpose of any computation of current market price under this Restated Certificate, current market price of any security on any date shall be deemed to be the average of the daily closing prices per share of such security for the 20 consecutive Trading Days immediately prior to such date or, with respect to any adjustment in conversion rights as set forth herein, the earlier of the date in question and the date immediately prior to the Ex Date; provided, however, that if any other transaction occurs requiring an adjustment in the conversion rights as set forth herein, and the Ex Date for such other transaction falls during such 20 consecutive Trading Day period, then, and in each such case, the current per share market price shall be appropriately adjusted. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported on the principal national securities exchange on which the security is listed or admitted to trading or, if the security is not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ or such other system then in use, or, if on any such date the security is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the security selected by the Board of Directors of the Corporation. Trading Day means a day on which the principal national securities exchange on which the security is listed or admitted to trading is open for the transaction of business or, if the security is not listed or admitted to trading on any national securities exchange, a Business Day. Ex Date means (i) when used with respect to any dividend, distribution or issuance, the first date on which the Common Stock trades regular way on the relevant exchange or in the relevant market from which the closing price is obtained without the right to receive such dividend, distribution or issuance, (ii) when used with respect to any subdivision or combination of shares of Common Stock, the first date on which the Common Stock trades regular way on such exchange or in such market after the time at which such subdivision or combination becomes effective, (iii) when used with respect to any tender or exchange offer, the first date on which the Common Stock trades regular way on such exchange or in such market after such tender or exchange offer expires and (iv) when used with respect to any other transaction, the date of consummation of such transaction.

(o) *Regulatory Matters*. If any shares of Series A Common Stock or Series C Common Stock, which would be issuable upon conversion of shares of Convertible Preferred Stock require the approval of any governmental authority before such shares may be issued upon conversion, the Corporation, at the request and expense of the holder(s) of such Convertible Preferred Stock, will use its reasonable best efforts to cooperate with the holder(s) of such

Convertible Preferred Stock to obtain such approvals.

5. *Voting Rights.*

(a) *General Voting Rights*. In connection with any matter as to which the holders of Series A Common Stock and Series B Common Stock are entitled to vote other than the election of Common Stock Directors, each share of Series A Preferred Stock issued and outstanding as of the record date for such meeting shall have (and the holder of record thereof shall be entitled to cast) the number of votes equal to the number of votes such holder would have been entitled to cast had it converted its shares of Series A Preferred Stock into shares of Series A Common Stock immediately prior to the record date for the determination of stockholders entitled to vote upon such matter. In connection with any matter as to which the holders of Series C Common Stock are entitled to vote pursuant to this Restated Certificate, each share of Series C Preferred Stock issued and outstanding as of the record date for such meeting shall have (and the holder of record thereof shall be entitled to cast) the number of votes equal to the number of votes such holder would have been entitled to cast had it converted its shares of Series C Preferred Stock into shares of Series C Common Stock immediately prior to the record date for the determination of stockholders entitled to vote upon such matter. Except as provided in this Article IV, Section C.5 and Article IV, Section B.1 and except as otherwise may be required by law or Series Preferred Stock Designation (as defined below) of any series of Series Preferred Stock, the holders of Common Stock, the holders of Convertible Preferred Stock and the holders of any other series of Series Preferred Stock shall be entitled to notice of and to attend any, meeting of stockholders and to vote together as a single class.

(b) *Election of Series A Preferred Stock Directors*.

(i) Until such time as a Series A Mandatory Conversion shall be deemed to have occurred pursuant to Article IV, Section C.4(a)(ii), the holders of the Series A Preferred Stock shall have the exclusive right to elect three members of the Board of Directors (each such director elected by the holders of the Series A Preferred Stock is hereinafter referred to as a Series A Preferred Stock Director). Notwithstanding the foregoing provisions of this Section, so long as the applicable rules and regulations of the NASDAQ or the Commission (in each case, as may be amended from time to time) require that the Board of Directors or any committee thereof, include as members thereof, directors who qualify as Independent Directors, then two of the persons proposed, designated or nominated in writing or otherwise by the holders of the Series A Preferred Stock to serve as a Series A Preferred Stock Director will, in addition to any other qualifications as a director imposed by the DGCL, qualify as Independent Directors, as determined by the then current Board, acting in good faith.

(ii) Each Series A Preferred Stock Director will be that person elected, by the written consent of the holders of a majority of the outstanding shares of Series A Preferred Stock given in accordance with Article IV, Section C.5(d) below or by the affirmative vote of the holders of a majority of the outstanding shares of Series A Preferred Stock at a meeting called for that purpose.

(iii) A Series A Preferred Stock Director may be removed from office (x) without Cause upon the affirmative vote of the holders of at least a majority of the outstanding voting shares of the Series A Preferred Stock entitled to vote upon the election of directors, voting together as a separate class and (y) may be removed with Cause as provided in Article V, Section C below. Any vacancy in the office of a Series A Preferred Stock Director occurring during the effectiveness of the applicable provisions of Article IV, Section C.5(b)(i) shall be filled solely by the written consent of the holders of a majority of the outstanding shares of the Series A Preferred Stock given in accordance with Article IV, Section C.5(d) below or by the affirmative vote of the holders of a majority of the outstanding shares of Series A Preferred Stock at a meeting called for that purpose. Any director elected to fill a vacancy shall and serve the same remaining term as that of his or her predecessor and until his or her successor has been chosen and has qualified.

(c) *Special Class Vote Matters*. Until such time as a Series A Mandatory Conversion shall be deemed to have occurred pursuant to Article IV, Section C.4(a)(ii), neither the Corporation nor any of its Subsidiaries will take any of the following actions (any such action, a Special Class Vote Matter) following the Issue Date without having obtained the affirmative vote or written consent of the holders of a majority of the outstanding shares of the Series A Preferred Stock given in accordance with Article IV, Section C.5(d) below or by the affirmative vote of the holders of a majority of the outstanding shares of the Series A Preferred Stock at a meeting called for that purpose:

(i) any increase in the number of members of the Board of Directors to a number of directors in excess of 11;

(ii) any fundamental change in the business of the Corporation and its Subsidiaries from the business of the Corporation and its Subsidiaries as conducted as of the Issue Date or the making of any investment, establishment of joint venture, or any acquisition, in each case, constituting a material departure from the current lines of business of the Corporation and its Subsidiaries (other than any such change, investment, joint venture or acquisition that has been approved in accordance with Article IV, Section C.5(c)(vi) below);

(iii) the material amendment, alteration or repeal of any provision of this Restated Certificate or the Bylaws (as defined in Article V, Section F) (or the organizational documents of any Subsidiary of the Corporation) or the addition or insertion of other provisions therein, other than (i) any amendments to the articles or certificate of incorporation, bylaws or organizational documents of any Wholly-Owned Subsidiary or (ii) an amendment to or modification of this Restated Certificate that is necessary in order to implement any action that has been otherwise approved by the holders of a majority of the outstanding shares of the Series A Preferred Stock;

(iv) any transaction (a Related Party Transaction) between (x) the Corporation or any of its Subsidiaries, on the one hand, and (y) any Related Party of the Corporation, on the other hand, including the amendment of any agreement between the Corporation or any of its Subsidiaries and any Related Party of the Corporation as in effect on the Issue Date; provided, however, that any transaction between the Corporation or any of its Subsidiaries and a Related Party of the Corporation will not constitute a Related Party Transaction if the terms and conditions of such transaction, taken as a whole, are no more favorable to such Related Party than the terms and conditions made available to similarly situated third parties, or, if there are no such similarly situated third parties, such transaction is otherwise on arm s length terms;

(v) the merger, consolidation or other business combination by the Corporation into or with any other entity, other than any transaction involving only the Corporation and/or one or more direct or indirect Wholly-Owned Subsidiaries of the Corporation; provided, however, that the provisions of this Section will not apply to the Merger or apply to transactions that have been approved in accordance with Article IV, Sections C.5(c)(vi) and (vii) below;

(vi) the acquisition by the Corporation or any of its Subsidiaries of any assets or properties (including stock or other equity interests of a third party) in one transaction or a series of related transactions, which assets or properties have an aggregate value or funding commitment by the Corporation in excess of $250 million;

(vii) the disposition (by way of sale, distribution to stockholders of the Corporation of any securities or assets, or any other means) by the Corporation or any of its Subsidiaries of any assets or properties (including stock or other equity interests of a third party) in one transaction or a series of related transactions, which assets or properties have an aggregate value in excess of $250 million;

(viii) the authorization, issuance, reclassification, redemption, exchange, subdivision or recombination of any equity securities of the Corporation or its material Subsidiaries, other than: (1) any issuance of equity securities to the Corporation or its Subsidiaries of any entity if subsequent to such issuance, such entity would be a direct or indirect Wholly-Owned Subsidiary of the Corporation, provided, that such Wholly-Owned Subsidiary may not Transfer such equity securities to any Person other than the Corporation or another Wholly-Owned Subsidiary; (2) any issuance of equity securities in connection with a transaction that has been approved in accordance with Article IV, Sections C.5(c)(v) or (vi) above or in connection with an acquisition (or series of related acquisitions) with respect to which the approval of the holders of the Series A Preferred Stock is not otherwise required, provided, that none of the Corporation or any of its Subsidiaries pays consideration consisting of or including capital stock of the Corporation or any of its material Subsidiaries in any such transaction that provides (other than as required by the DGCL) the holders of such security with voting rights superior in any respect to the voting rights of the holders of the Series A Common Stock, on a per share basis; (3) pursuant to the terms of the Company Rights Plan or the Rights distributed pursuant thereto; (4) in connection with the exercise of any stock options or stock appreciation rights of the Corporation or any of its Subsidiaries outstanding immediately following the effectiveness of the Merger; or (5) pursuant to any equity compensation plan of the Corporation approved by the holders of the Series A Preferred Stock;

(ix) any action resulting in the voluntary liquidation, dissolution or winding up of the Corporation or any material Subsidiary of the Corporation;

(x) any substantial change in Discovery s service distribution policy and practices from the service distribution policy and practices of Discovery and its Subsidiaries as of the Issue Date;

(xi) the declaration or payment of any dividend on, or the making of any distribution to holders of equity securities of the Corporation or any Subsidiary of the Corporation, other than (1) cash dividends payable out of current year earnings; (2) dividends or distributions payable or made in shares of Common Stock or other securities of the Corporation, subject to the limitations otherwise provided for herein; (3) dividends or distributions to the Corporation or any Wholly-Owned Subsidiary of the Corporation that are declared and paid by a Wholly-Owned Subsidiary of the Corporation; and (4) the Rights Dividend;

(xii) the incurrence of Indebtedness after the Issue Date, by or on behalf of the Corporation or any of its Subsidiaries, if (1) such Indebtedness, together with all other Indebtedness of the Corporation and its Consolidated Group, would exceed four (4) times the Cash Flow of the Corporation and its Consolidated Group for the last four (4) consecutive calendar quarters (the Annualized Cash Flow) or (2) the Debt Service for the next twelve (12) calendar months related to such Indebtedness, together with the Debt Service for the next twelve (12) calendar months for all other Indebtedness of the Corporation and its Consolidated Group, would exceed sixty-six percent (66%) of the Annualized Cash Flow of the Corporation and its Consolidated Group;

(xiii) the appointment or removal of the Chairman of the Board of Directors of the Corporation and the appointment or removal of the Chief Executive Officer of the Corporation;

(xiv) any offering of any security of the Corporation or any of its Subsidiaries that would constitute a public offering within the meaning of the Securities Act of 1933, other than, (1) in connection with an acquisition (or series of related acquisitions) with respect to which the approval of the holders of the Series A Preferred Stock is not otherwise required; (2) an offering of securities pursuant to the Company Rights Plan; or (3) in connection with any equity compensation plan of the Corporation or any of its Subsidiaries in effect as of the Issue Date or approved by the holders of the Series A Preferred Stock; provided, that, in the case of (1) of this subsection, none of the Corporation or any of its Subsidiaries pays consideration consisting of capital stock of the Corporation or any of its Subsidiaries in any such transaction that provides (other than as required by the DGCL) the holders of such security with voting rights superior in any respect to the voting rights of the holders of the Series A Common Stock, on a per share basis; and

(xv) the adoption of the Annual Business Plan of the Corporation and any material deviation therefrom.

(d) *Action By Written Consent*. With respect to actions by the holders of the Series A Preferred Stock upon those matters on which such holders are entitled to vote as a separate class (including but not limited to the Special Class Vote Matters), such actions may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by at least a majority of the outstanding shares of Series A Preferred Stock, and shall be delivered to the Corporation as provided in the DGCL. Notice shall be given in accordance with the applicable provisions of the DGCL of the taking of corporate action without a meeting by less than unanimous written consent.

6. *Waiver*. Unless otherwise provided in this Restated Certificate, any provision which, for the benefit of the holders of the Convertible Preferred Stock or any series thereof, prohibits, limits or restricts actions by the Corporation, or imposes obligations on the Corporation, may be waived in whole or in part, or the application of all or any part of such provision in any particular circumstance or generally may be waived, in each case only pursuant to the consent of the holders of a majority (or such greater percentage thereof as may be required by applicable law or any applicable rules of any national securities exchange) of the outstanding shares of Convertible Preferred Stock, or the series thereof so affected, consenting together as a single class. Any such waiver shall be binding on all holders, including any subsequent holders, of the Convertible Preferred Stock.

7. *Method of Giving Notices*. Any notice required or permitted hereby to be given to the holders of shares of Convertible Preferred Stock shall be deemed duly given if deposited in the United States mail, first class mail, postage prepaid, and addressed to each holder of record at the holder s address appearing on the books of the Corporation or supplied by the holder in writing to the Corporation for the purpose of such notice.

8. *Exclusion of Other Rights*. Except as provided in the Bylaws of the Corporation or as may otherwise be required by law and except for the equitable rights and remedies which may otherwise be available to holders of Convertible Preferred Stock, the shares of Convertible Preferred Stock shall not have any designations, preferences, limitations or relative rights other than those specifically set forth herein.

9. *Heading of Subdivisions*. The headings of the various subdivisions hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

SECTION D

SERIES PREFERRED STOCK

1. The Series Preferred Stock may be divided and issued in one or more series from time to time, with such powers, designations, preferences and relative, participating, optional or other rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of each such series adopted by the Board of Directors (a Series Preferred Stock Designation).

2. The Board of Directors, in the Series Preferred Stock Designation with respect to a series of Series Preferred Stock (a copy of which shall be filed as required by law), shall, without limitation of the foregoing, be authorized to fix the following with respect to such series of Series Preferred Stock:

(a) the distinctive serial designations and the number of authorized shares of such series, which may be increased or decreased from time to time, but not below the number of shares thereof then outstanding, by a certificate made, signed and filed as required by law (except where otherwise provided in a Series Preferred Stock Designation);

(b) the dividend rate or amounts, if any, for such series, the date or dates from which dividends on all shares of such series shall be cumulative, if dividends on shares of such series shall be cumulative, and the relative preferences or rights of priority, if any, or participation, if any, with respect to payment of dividends on shares of such series;

(c) the rights of the shares of such series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, if any, and the relative preferences or rights of priority, if any, of payment of shares of such series;

(d) the right, if any, of the holders of such series to convert or exchange such shares into or for other classes or series of a class of stock or indebtedness of the Corporation or of another Person, and the terms and conditions of such conversion or exchange, including provision for the adjustment of the conversion or exchange rate in such events as the Board of Directors may determine;

(e) the voting powers, if any, of the holders of such series;

(f) the terms and conditions, if any, for the Corporation to purchase or redeem shares of such series; and

(g) any other relative rights, powers, preferences and limitations, if any, of such series.

3. The Board of Directors is hereby expressly authorized to exercise its authority with respect to fixing and designating various series of the Series Preferred Stock and determining the relative rights, powers and preferences, if any, thereof to the full extent permitted by applicable law, subject to any stockholder vote that may be required by this Restated Certificate. All shares of any one series of the Series Preferred Stock shall be alike in every particular. Except to the extent otherwise expressly provided in the Series Preferred Stock Designation for a series of

Series Preferred Stock, the holders of shares of such series shall have no voting rights except as may be required by the laws of the State of Delaware. Further, unless otherwise expressly provided in the Series Preferred Stock Designation for a series of Series Preferred Stock, no consent or vote of the holders of shares of Series Preferred Stock or any series thereof shall be required for any amendment to this Restated Certificate that would increase the number of authorized shares of Series Preferred Stock or the number of authorized shares of any series thereof or decrease the number of authorized shares of Series Preferred Stock or the number of authorized shares of any series thereof (but not below the number of authorized shares of Series Preferred Stock or such series, as the case may be, then outstanding).

4. Except as may be provided by the Board of Directors in a Series Preferred Stock Designation or by law, shares of any series of Series Preferred Stock that have been redeemed (whether through the operation of a sinking fund or otherwise) or purchased by the Corporation, or which, if convertible or exchangeable, have been converted into or exchanged for shares of stock of any other class or classes shall have the status of authorized and unissued shares of Series Preferred Stock and may be reissued as a part of the series of which they were originally a part or may be reissued as part of a new series of Series Preferred Stock to be created by a Series Preferred Stock Designation or as part of any other series of Series Preferred Stock.

ARTICLE V

DIRECTORS

SECTION A

NUMBER OF DIRECTORS

The governing body of the Corporation shall be a Board of Directors and the number of directors of the Corporation shall be determined in accordance with the Bylaws of the Corporation. The Board of Directors immediately following the effectiveness of the Merger shall be comprised of the persons listed on Schedule 2.03(f) to the Transaction Agreement. Election of directors need not be by written ballot.

1. *Series A Preferred Stock Directors*. The Series A Preferred Stock Directors shall be elected by the holders of the Series A Preferred Stock, subject to, and in the manner provided in, Article IV, Section C.5(b) of this Restated Certificate. In the event the holders of Series A Preferred Stock cease to have the right to elect Series A Preferred Stock Directors in accordance with Article IV, Section C.5(b), any Series A Preferred Stock Director in office at such time shall automatically be removed as a member of the Board of Directors and the number of directors constituting the Board of Directors at such time shall automatically be reduced by the number of Series A Preferred Stock Directors immediately prior to such removal. For the avoidance of doubt, the provisions relating to classification and appointment of directors set forth in Article V, Sections B and D below shall apply only to the Common Stock Directors and not the Series A Preferred Stock Directors. The Series A Preferred Stock Directors immediately after the effectiveness of the Merger shall be as provided in Schedule 2.03(f) to the Transaction Agreement.

2. *Common Stock Directors*. Directors of the Corporation, other than (i) the Series A Preferred Stock Directors, and (ii) directors elected by the holders of any series of Series Preferred Stock entitled to elect a separate class of directors pursuant to the applicable Series Preferred Stock Designation, shall be elected, by the holders of the Common Stock, subject to, and in the manner provided in, this Article V, and shall be designated as Common Stock Directors.

SECTION B

CLASSIFICATION OF THE BOARD

Except as otherwise fixed by or pursuant to the provisions of (i) Article IV, Section C hereof relating to the rights of the holders of Series A Preferred Stock to elect the Series A Preferred Stock Directors who are not required to be classified, and (ii) the Series Preferred Stock Designation in respect of any series of Series Preferred Stock the holders of which are entitled to separately elect additional directors, which additional directors are not required to be classified pursuant to the terms of such series of Series Preferred Stock, the Common Stock Directors shall be divided into three classes: Class I, Class II and Class III. Each class shall consist, as nearly as possible, of a number of directors equal to one-third (1/3) of the number of Common Stock Directors. The Common Stock Directors as of immediately following the effectiveness of the Merger shall be designated into classes as set forth on Schedule 2.03(f) to the Transaction Agreement. The term of office of the initial Class I directors shall expire at the annual meeting of stockholders in 2009; the term of office of the initial Class II directors shall expire at the annual meeting of stockholders in 2010; and the term of office of the initial Class III directors shall expire at the annual meeting of stockholders in 2011. At each annual meeting of stockholders of the Corporation the successors of that class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. The directors of each class will hold office until their respective successors are elected and qualified or until such director s earlier death, resignation or removal.

SECTION C

REMOVAL OF DIRECTORS

Subject to the rights of the holders of any series of Series Preferred Stock, Common Stock Directors may be removed from office only for Cause upon the affirmative vote of the holders of at least a majority of the total voting power of the then outstanding shares of Series A Common Stock, Series B Common Stock and any series of Series Preferred Stock entitled to vote upon the election of Common Stock Directors, and the Series A Preferred Stock Directors may be removed from office (x) for Cause upon the affirmative vote of the holders of at least a majority of the total voting power of the then outstanding shares of Series A Common Stock, Series B Common Stock, Series A Preferred Stock and any series of Series Preferred Stock entitled to vote upon the election of Common Stock Directors voting together as a single class, and (y) without Cause by the holders of a majority of the shares of Series A Preferred Stock outstanding, voting together as a separate class, subject, in the case of the removal of a Series A Preferred Stock Director, to the right of the holders of Series A Preferred Stock to elect or appoint a replacement to fill such vacancy.

SECTION D

NEWLY CREATED DIRECTORSHIPS AND VACANCIES

Subject to the rights of holders of any series of Series Preferred Stock and except as otherwise provided in the Bylaws, any vacancy in the office of a Common Stock Director resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on the Board of Directors, shall be filled only by the affirmative vote of a majority of Common Stock Directors then in office (even though less than a quorum) or by the sole remaining Common Stock Director. Any Common Stock Director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred or to which the new directorship is apportioned, and until such director s successor shall have been elected and qualified or until such director s earlier death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director, except as provided by Article V, Section A or as may be provided in a Series Preferred Stock Designation with respect to any additional director elected by the holders of the applicable series of Series Preferred Stock.

SECTION E

LIMITATION ON LIABILITY AND INDEMNIFICATION

1. *Limitation On Liability*. To the fullest extent permitted by the DGCL as the same exists or may hereafter be amended, a director of the Corporation shall not be liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director. Any amendment, repeal or modification of this Article V, Section E.1 shall be prospective only and shall not adversely affect any limitation, right or protection of a director of the Corporation existing at the time of such amendment, repeal or modification.

2. *Indemnification*.

(a) *Right to Indemnification*. The Corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a proceeding) by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or officer of the Corporation or while a director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, employee, representative or agent of another corporation or of a partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys fees) incurred by such person. Such right of indemnification shall inure whether or not the claim asserted is based on matters that antedate the adoption of this Article V, Section E. The Corporation shall be required to indemnify or make advances to a person in connection with a proceeding (or part thereof) initiated by such person only if the proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

(b) *Prepayment of Expenses*. The Corporation shall pay the expenses (including attorneys fees) incurred by a director or officer in defending any proceeding in advance of its final disposition; provided, however, that the payment of expenses incurred by a director or officer in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under this Section or otherwise.

(c) *Claims*. If a claim for indemnification or payment of expenses under this Section is not paid in full within 30 days after a written claim therefor has been received by the Corporation, the claimant may file suit to recover the unpaid amount of such claim and, to the extent permitted by law, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Corporation shall have the burden of proving that the claimant was not entitled to the requested indemnification or payment of expenses under applicable law.

(d) *Non-Exclusivity of Rights*. The rights conferred on any person by this Section shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of this Restated Certificate, the Bylaws, agreement, vote of stockholders or resolution of disinterested directors or otherwise.

(e) *Insurance*. The Board of Directors may, to the full extent permitted by applicable law as it presently exists, or may hereafter be amended from time to time, authorize an appropriate officer or officers to purchase and maintain at the Corporation s expense insurance: (i) to indemnify the Corporation for any obligation which it incurs as a result of the indemnification of directors and officers under the provisions of this Article V, Section E; and (ii) to indemnify or insure directors and officers against liability in instances in which they may not otherwise be indemnified by the Corporation under the provisions of this Article V, Section E.

(f) *Other Indemnification*. The Corporation s obligation, if any, to indemnify any person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity.

3. *Amendment or Repeal*.

Any amendment, modification or repeal of the foregoing provisions of this Article V, Section E shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

SECTION F

AMENDMENT OF BYLAWS

In furtherance and not in limitation of the powers conferred by the DGCL and subject to the rights of the holders of Series A Preferred Stock as set forth in Article IV, Section C.5(c)(iii), the Board of Directors, by action taken by the affirmative vote of not less than 75% of the members of the Board of Directors then in office, is hereby expressly authorized and empowered to adopt, amend or repeal any provision of the Bylaws of this Corporation (Bylaws).

ARTICLE VI

MEETINGS OF STOCKHOLDERS

SECTION A

ANNUAL AND SPECIAL MEETINGS

Subject to the rights of the holders of any series of Series Preferred Stock and the rights of the holders of Series A Preferred Stock and except as provided in Article VI, Section B, stockholder action may be taken only at an annual or special meeting. Except as otherwise provided in a Series Preferred Stock Designation with respect to any series of Series Preferred Stock or unless otherwise prescribed by law or by another provision of this Restated Certificate, special meetings of the stockholders of the Corporation, for any purpose or purposes, shall be called by the Secretary of the Corporation at the request of at least 75% of the members of the Board of Directors then in office.

SECTION B

ACTION WITHOUT A MEETING

No action required to be taken or which may be taken at any annual meeting or special meeting of stockholders may be taken without a meeting, and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied; provided, however, that notwithstanding the foregoing, (i) the holders of the Series B Common Stock may take action by written consent for purposes of consenting to (x) any Share Distribution pursuant to Article IV, Section B.4(c) of this Restated Certificate, (y) the issuance of shares of Series B Common Stock other than in a Permitted Series B Issuance, and/or (z) any amendment, alteration, repeal, addition or insertion of any provision of this Restated Certificate for which a Series B Consent is required in accordance with Article VII of this Restated Certificate, (ii) holders of Convertible Preferred Stock may take action by written consent as set forth in Article IV, Section C.5(d), and (iii) holders of any series of Series Preferred Stock may take action by written consent to the extent provided in a Series Preferred Stock Designation with respect to such series.

ARTICLE VII

ACTIONS REQUIRING SUPERMAJORITY STOCKHOLDER VOTE

Subject to the rights of the holders of any series of Series Preferred Stock and the rights of the holders of Series A Preferred Stock as set forth in Article IV, Section C.5(c), the affirmative vote of the holders of at least 80% of the total voting power of the then outstanding Voting Securities, voting together as a single class at a meeting specifically called for such purpose, shall be required in order for the Corporation to take any action to authorize:

(a) the amendment, alteration or repeal of any provision of this Restated Certificate or the addition or insertion of other provisions herein; provided, however, that this clause (a) shall not apply to any such amendment, alteration, repeal, addition or insertion (i) as to which the laws of the State of Delaware, as then in effect, do not require the consent of this Corporation s stockholders, or (ii) that at least 75% of the members of the Board of Directors then in office have approved; provided, further that, notwithstanding the foregoing, so long as any shares of Series B Common Stock are issued and outstanding, unless the Corporation shall have obtained the Series B Consent with respect to such amendment, alteration, repeal, addition or insertion, (x) the Corporation will not amend, alter or repeal the provisions of this clause (a), the second full paragraph of Article IV or any provisions of Article IV, Section B of this Restated Certificate and (y) the Corporation will not amend, alter or repeal any provision of this Restated Certificate or add to or insert any provision in this Restated Certificate if (1) such amendment, alteration, repeal, addition or insertion would result, directly or indirectly, in the reclassification or recapitalization of the then outstanding shares of Common Stock into securities of the Corporation or any other Person (or securities convertible into or exchangeable for, or which evidence the right to purchase, securities of the Corporation or any other Person) and (2) the securities to be held or received by the holders of Series B Common Stock as a result of such reclassification or recapitalization (and, if such securities are Convertible Securities, the Underlying Securities with respect thereto) would have no voting power, or would have Per Share Voting Power of less than ten times the Per Share Voting Power of the securities (and, if such securities are Convertible Securities, the Underlying Securities with respect thereto) to be held or received as a result of such reclassification or recapitalization by the holders of shares of Series A Common Stock, (or, if there are two or more other series of Common Stock then outstanding, that series of Common Stock holding or receiving, as a result of such reclassification or recapitalization, securities (and, if such securities are Convertible Securities, the Underlying Securities with respect thereto) having the next highest Per Share Voting Power relative to the securities (and, if such securities are Convertible Securities, the Underlying Securities with respect thereto) to be held or received by the holders of Series B Common Stock), or (3) the securities to be held or received by the holders of Series C Common Stock as a result of such reclassification or recapitalization (and, if such securities are Convertible Securities, the Underlying Securities with respect thereto) would be entitled to vote with respect to matters upon which securities holders of the issuer thereof are generally entitled to vote (other than to an extent no greater than the holders of Series C Common Stock are entitled to vote upon matters as provided in this Restated Certificate);

(b) the adoption, amendment or repeal of any provision of the Bylaws of the Corporation; provided, however, that this clause (b) shall not apply to, and no vote of the stockholders of the Corporation shall be required to authorize, the adoption, amendment or repeal of any provision of the Bylaws of the Corporation by the Board of Directors in accordance with the power conferred upon it pursuant to Article V, Section F of this Restated Certificate;

(c) the merger or consolidation of this Corporation with or into any other Person or any other business combination involving the Corporation; provided, however, that this clause (c) shall not apply to any such merger or consolidation (i) as to which the laws of the State of Delaware, as then in effect, do not require the consent of this Corporation s stockholders, or (ii) that at least 75% of the members of the Board of Directors then in office have approved;

(d) the sale, lease or exchange of all, or substantially all, of the assets of the Corporation; provided, however, that this clause (d) shall not apply to any such sale, lease or exchange that at least 75% of the members of the Board of Directors then in office have approved; or

(e) the dissolution of the Corporation; provided, however, that this clause (e) shall not apply to such dissolution if at least 75% of the members of the Board of Directors then in office have approved such dissolution.

Subject to the foregoing provisions of this Article VII, the Corporation reserves the right at any time, and from time to time, to amend, alter, change or repeal any provision contained in this Restated Certificate, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other Persons whomsoever by and pursuant to this Restated Certificate in its present form or as hereafter amended are granted subject to the rights reserved in this Article VII.

ARTICLE VIII

SECTION 203 OF THE DGCL

The Corporation expressly elects not to be governed by Section 203 of the DGCL.

ARTICLE IX

CERTAIN BUSINESS OPPORTUNITIES

1. *Certain Acknowledgements; Definitions*. In recognition and anticipation that (a) directors and officers of the Corporation and its Subsidiaries may serve as directors, officers and employees of any other corporation, company,

partnership, association, firm or other entity (Other Entity), (b) the Corporation and its Affiliates, directly or indirectly, may engage and are expected to continue to engage in the same, similar or related lines of business as those engaged in by any Other Entity and other business activities that overlap with or compete with those in which such Other Entity may engage, (c) the Corporation and its Affiliates may have an interest in the same areas of business opportunity as any Other Entity, (d) the Corporation and its Affiliates may engage in material business transactions with any Other Entity and its Affiliates, including (without limitation) receiving services from, providing services to or being a significant customer or supplier to such Other Entity and its Affiliates, and that the Corporation and such Other Entity or one or more of their respective Affiliates may benefit from such transactions, and (e) as a consequence of the foregoing, it is in the best interests of the Corporation that the rights of the Corporation and its Subsidiaries, and the duties of any directors or officers of the Corporation or any of its Subsidiaries (including any such persons who are also directors, officers or employees of any Other Entity), be determined and delineated in respect of (x) any transactions between the Corporation and its Affiliates, on the one hand, and such Other Entity and its Affiliates, on the other hand, and (y) any potential transactions or matters that may be presented to officers and directors or the Corporation and its Subsidiaries, or of which such officers or directors may otherwise become aware, which potential transactions or matters may constitute business opportunities of the Corporation or any of its Affiliates, and in recognition of the benefits to be derived by the Corporation through its continued contractual, corporate and business relations with such Other Entity and of the benefits to be derived by the Corporation by the possible service as directors or officers of the Corporation and its Subsidiaries of Persons who may also serve from time to time as directors, officers and employees of such Other Entity, the provisions of this Article IX shall, to the fullest extent permitted by law, regulate and define the conduct of the business and affairs of the Corporation and its Subsidiaries in relation to such Other Entity and its Affiliates, and as such conduct and affairs may involve such Other Entity s respective directors, officers and employees, and the powers, rights, duties and liabilities of the Corporation and its Subsidiaries and their respective officers and directors in connection therewith and in connection with any potential business opportunities of the Corporation. Any Person purchasing or otherwise acquiring any shares of capital stock of the Corporation, or any interest therein, shall be deemed to have notice of and to have consented to the provisions of this Article IX. References in this Article IX to directors, officers or employees of any Person shall be deemed to include those Persons who hold similar positions or exercise similar powers and authority with respect to any Other Entity that is a limited liability company, partnership, joint venture or other non-corporate entity.

2. *Duties of Directors and Officers Regarding Potential Business Opportunities; No Liability for Certain Acts or Omissions*. If a director or officer of the Corporation or any Subsidiary of the Corporation is offered, or otherwise acquires knowledge of, a potential transaction or matter that may constitute or present a business opportunity for the Corporation or any of its Affiliates (any such transaction or matter, and any such actual or potential business opportunity, a Potential Business Opportunity), such director or officer shall, to the fullest extent permitted by law, have no duty or obligation to refer such Potential Business Opportunity to the Corporation or any of its Subsidiaries, or to refrain from referring such Potential Business Opportunity to any Other Entity, or to give any notice to the Corporation or any of its Subsidiaries regarding such Potential Business Opportunity (or any matter related thereto), and such director or officer will not be liable to the Corporation or any of its Subsidiaries, as a director, officer, stockholder or otherwise, for any failure to refer such Potential Business Opportunity to the Corporation or any of its Subsidiaries, or for referring such Potential Business Opportunity to any Other Entity, or for any failure to give any notice to the Corporation or any of its Subsidiaries regarding such Potential Business Opportunity or any matter relating thereto, unless both the following conditions are satisfied: (A) such Potential Business Opportunity was expressly offered to such director or officer solely in his or her capacity as a director or officer of the Corporation or as a director or officer of any Subsidiary of the Corporation and (B) such opportunity relates to a line of business in which the Corporation or any Subsidiary of the Corporation is then directly engaged.

3. *Amendment of Article IX*. No alteration, amendment or repeal, or adoption of any provision inconsistent with, any provision of this Article IX shall have any effect upon (a) any agreement between the Corporation or an Affiliate thereof and any Other Entity or an Affiliate thereof, that was entered into before such time or any transaction entered into in connection with the performance of any such agreement, whether such transaction is entered into before or after such time, (b) any transaction entered into between the Corporation or an Affiliate thereof and any Other Entity or an Affiliate thereof, before such time, (c) the allocation of any business opportunity between the Corporation or an Affiliate thereof and any Other Entity before such time, or (d) any duty or obligation owed by any director or officer

of the Corporation or any Subsidiary of the Corporation (or the absence of any such duty or obligation) with respect to any Potential Business Opportunity which such director or officer was offered, or of which such director or officer otherwise became aware, before such time.

IN WITNESS WHEREOF, the undersigned has signed this Restated Certificate of Incorporation this [ ] day of [ ], 2008.

DISCOVERY COMMUNICATIONS, INC.

By:

Name:
Title:

Appendix E

FORM OF
BY-LAWS
OF
DISCOVERY COMMUNICATIONS, INC.

A Delaware Corporation
(the Corporation)

ARTICLE I

STOCKHOLDERS

Section 1.1 *Annual Meeting*.

An annual meeting of stockholders for the purpose of electing directors and of transacting any other business properly brought before the meeting pursuant to these Bylaws shall be held each year at such date, time and place, either within or without the State of Delaware or, if so determined by the Board of Directors in its sole discretion, at no place (but rather by means of remote communication), as may be specified by the Board of Directors in the notice of meeting.

Section 1.2 *Special Meetings*.

Except as otherwise provided in the terms of any series of preferred stock or unless otherwise provided by law or by the Corporation s Certificate of Incorporation, special meetings of stockholders of the Corporation, for the transaction of such business as may properly come before the meeting, may be called by the Secretary of the Corporation only at the request of not less than 75% of the members of the Board of Directors then in office. Only such business may be transacted as is specified in the notice of the special meeting. The Board of Directors shall have the sole power to determine the time, date and place, either within or without the State of Delaware, for any special meeting of stockholders. Following such determination, it shall be the duty of the Secretary to cause notice to be given to the stockholders entitled to vote at such meeting that a meeting will be held at the time, date and place and in accordance with the record date determined by the Board of Directors.

Section 1.3 *Record Date*.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date: (i) in the case of determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by the laws of the State of Delaware, not be more than sixty (60) nor less than ten (10) days before the date of such meeting, and (ii) in the case of any other lawful action, shall not be more than sixty (60) days prior to such other action. If no record date is fixed by the Board of Directors: (i) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and (ii) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 1.4 *Notice of Meetings*.

Notice of all stockholders meetings, stating the place, if any, date and hour thereof; the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting; the place within the city, other municipality or community or electronic network at which the list of stockholders may be examined; and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered in accordance with applicable law and applicable stock exchange rules and regulations by the Chairman of the Board, the President, any Vice President, the Secretary or an Assistant Secretary, to each stockholder entitled to vote thereat at least ten (10) days but not more than sixty (60) days before the date of the meeting, unless a different period is prescribed by law, or the lapse of the prescribed period of time shall have been waived. If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to such stockholder s address as it appears on the records of the Corporation.

Section 1.5 *Notice of Stockholder Business and Nominations*.

(a) *Annual Meetings of Stockholders*. (1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders only (i) pursuant to the Corporation s notice of meeting (or any supplement thereto), (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who was a stockholder of record of the Corporation at the time the notice provided for in this Section 1.5 is delivered to the Secretary of the Corporation, who (x) in the case of nominations of persons for election to the Board of Directors, was a holder of record as of such date of shares of the class or series of capital stock of the Corporation entitled to vote upon such election, and (y) in the case of all other matters, was a holder of record as of such date of shares of the class or series of capital stock of the Corporation entitled to vote on such matter, and, in each case, who complies with the notice procedures set forth in this Section 1.5.

(2) In addition to any other requirements under applicable law and the Corporation s Certificate of Incorporation, no nomination by any stockholder or stockholders of a person or persons for election to the Board of Directors, and no other proposal by any stockholder or stockholders, shall be considered properly brought before an annual meeting unless the stockholder shall have given timely notice thereof in writing to the Secretary of the Corporation and any such proposed business, other than the nominations of persons for election to the Board of Directors, constitutes a proper matter for stockholder action. To be timely, a stockholder s notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the sixtieth (60th) day nor earlier than the close of business on the ninetieth (90th) day prior to the first anniversary of the preceding year s annual meeting (or, in the case of the Corporation s first annual meeting, the preceding year s annual meeting for Discovery Holding Company (DHC)); provided, however, that in the event that the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the one hundredth (100th) day prior to such annual meeting and not later than the close of business on the later of the seventieth (70th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder s notice as described above. Such stockholder s notice shall set forth: (i) as to each person whom the stockholder proposes to nominate for election as a director (x) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended (the Exchange Act) and (y) such person s written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the Corporation, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (v) the name and address of such stockholder, as they appear on the Corporation s books, and of such beneficial owner, (w) the class or series and number of shares of capital stock of the Corporation which are owned beneficially and of record by such

stockholder and such beneficial owner, (x) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote on the matter to which its proposal relates at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, (y) a representation (A) whether any such person or such stockholder has received any financial assistance, funding or other consideration from any other person in respect of the nomination (and the details thereof) (a Stockholder Associated Person) and (B) whether and the extent to which any hedging, derivative or other transaction has been entered into with respect to the Corporation within the past six months by, or is in effect with respect to, such stockholder, any person to be nominated by such stockholder or any Stockholder Associated Person, the effect or intent of which transaction is to mitigate loss to or manage risk or benefit of share price changes for, or to increase or decrease the voting power of, such stockholder, nominee or any such Stockholder Associated Person, and (z) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends (A) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the class or series of the Corporation s outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (B) otherwise to solicit proxies from stockholders in support of such proposal or nomination. The foregoing notice requirements of clauses (a)(2)(ii) and (iii) of this Section 1.5 shall not apply to any proposal made pursuant to Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act. A proposal to be made pursuant to Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act shall be deemed satisfied if the stockholder making such proposal complies with the provisions of Rule 14a-8 and has notified the Corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 and such stockholder s proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine (x) the eligibility of such proposed nominee to serve as a director of the Corporation and (y) whether the nominee would be considered independent under the independence requirements set forth in the Corporate Governance Rules of NASDAQ (or the rules and regulations of the principal securities exchange on which the Corporation s equity securities are then listed) in effect from time to time.

(3) Notwithstanding anything in the second sentence of paragraph (a)(2) of this Section 1.5 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation at an annual meeting is increased and there is no public announcement by the Corporation naming the nominees for the additional directorships at least one hundred (100) days prior to the first anniversary of the preceding year s annual meeting (or, in the case of the Corporation s first annual meeting, the preceding year s annual meeting for DHC), a stockholder s notice required by this Section 1.5 shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(b) *Special Meetings of Stockholders*. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation s notice of meeting. Subject to the rights of the holders of any series of preferred stock, nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation s notice of meeting (1) by or at the direction of the Board of Directors or (2) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a holder of record of the class or series of capital stock of the Corporation entitled to vote upon such election at the time the notice provided for in this Section 1.5 is delivered to the Secretary of the Corporation, and who complies with the notice procedures set forth in this Section 1.5. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation s notice of meeting, if the stockholder s notice required by paragraph (a)(2) of this Section 1.5 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the ninetieth (90th) day prior to such special meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder s notice as described above.

(c) _General_. (1) Only such persons who are nominated in accordance with the procedures set forth in this Section 1.5 shall be eligible to be elected at an annual or special meeting of stockholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.5. Except as otherwise provided by law, the chairman of the meeting shall have the power and duty (i) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 1.5 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such stockholder s nominee or proposal in compliance with such stockholder s representation as required by clause (a)(2)(iii)(z) of this Section 1.5) and (ii) if any proposed nomination or business was not made or proposed in compliance with this Section 1.5, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 1.5, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or proposed business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 1.5, to be considered a qualified representative of the stockholder, a person must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

(2) For purposes of this Section 1.5, public announcement shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Section 1.5, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.5. Nothing in this Section 1.5 shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation s proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of preferred stock to elect directors pursuant to any applicable provisions of the Corporation s Certificate of Incorporation.

Section 1.6 *Quorum*.

Subject to the rights of the holders of any series of preferred stock and except as otherwise provided by law or in the Corporation s Certificate of Incorporation or these Bylaws, at any meeting of stockholders, the holders of a majority in total voting power of the outstanding shares of stock entitled to vote at the meeting shall be present or represented by proxy in order to constitute a quorum for the transaction of any business. Where a separate vote by one or more classes or series of capital stock is required by law or by the Certificate of Incorporation with respect to a particular matter to be presented at any such meeting, a majority in total voting power of the outstanding shares of such class or classes or series present in person or represented by proxy shall constitute a quorum entitled to take action with respect to that vote on that matter. The chairman of the meeting shall have the power and duty to determine whether a quorum is present at any meeting of the stockholders or for any matter to be voted on. Shares of its own stock belonging to the Corporation or to another corporation, if a majority in total voting power of the outstanding shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation or any subsidiary of the Corporation to vote stock, including, but not limited to, its own stock, held by it in a fiduciary capacity. In the absence of a quorum, the chairman of the meeting may adjourn the meeting from time to time in the manner provided in Section 1.7 hereof until a quorum shall be present.

Section 1.7 *Adjournment*.

Any meeting of stockholders, annual or special, may be adjourned from time to time solely by the chairman of the meeting because of the absence of a quorum or for any other reason and to reconvene at the same or some other time, date and place, if any. Notice need not be given of any such adjourned meeting if the time, date and place thereof are announced at the meeting at which the adjournment is taken. The chairman of the meeting shall have full power and authority to adjourn a stockholder meeting in his sole discretion even over stockholder opposition to such adjournment. The stockholders present at a meeting shall not have the authority to adjourn the meeting. If the time, date and place, if any, thereof, and the means of remote communication, if any, by which the stockholders and the proxy holders may be deemed to be present and in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken and the adjournment is for less than thirty (30) days, no notice need be given of any such adjourned meeting. If the adjournment is for more than thirty (30) days and the time, date and place, if any, and the means of remote communication, if any, by which the stockholders and the proxy holders may be deemed to be present and in person and vote are not announced at the meeting at which the adjournment is taken, or if after the adjournment a new record date is fixed for the adjourned meeting, then notice shall be given by the Secretary as required for the original meeting. At the adjourned meeting, the Corporation may transact any business that might have been transacted at the original meeting.

Section 1.8 *Organization*.

The Chairman of the Board, or in his absence the President, or in their absence any Vice President, shall call to order meetings of stockholders and preside over and act as chairman of such meetings. The Board of Directors or, if the Board fails to act, the stockholders, may appoint any stockholder, director or officer of the Corporation to act as chairman of any meeting in the absence of the Chairman of the Board, the President and all Vice Presidents. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at a meeting shall be determined by the chairman of the meeting and announced at the meeting. The Board of Directors may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Unless otherwise determined by the Board of Directors, the chairman of the meeting shall have the exclusive right to determine the order of business and to prescribe other such rules, regulations and procedures and shall have the authority in his discretion to regulate the conduct of any such meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) rules and procedures for maintaining order at the meeting and the safety of those present; (ii) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (iii) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (iv) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

The Secretary shall act as secretary of all meetings of stockholders, but, in the absence of the Secretary, the chairman of the meeting may appoint any other person to act as secretary of the meeting.

Section 1.9 *Postponement or Cancellation of Meeting*.

Any previously scheduled annual or special meeting of the stockholders may be postponed or canceled by resolution of the Board of Directors upon public notice given prior to the time previously scheduled for such meeting of stockholders.

Section 1.10 *Voting*.

Subject to the rights of the holders of any series of preferred stock and except as otherwise provided by law, the Corporation s Certificate of Incorporation or these Bylaws and except for the election of directors, at any meeting duly called and held at which a quorum is present, the affirmative vote of a majority of the combined voting power of the outstanding shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Subject to the rights of the holders of any series of preferred stock to elect a specified number of directors in certain circumstances, at any meeting duly called and held for the election of directors at which a quorum is present, directors shall be elected by a plurality of the combined voting power of the outstanding shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors as provided in the Corporation s Certificate of Incorporation.

Section 1.11 *Consent of Stockholders in Lieu of Meeting*. If the Corporation s Certificate of Incorporation permits the holders of any series of capital stock of the Corporation to act by written consent, such action may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed and delivered to the Corporation in the manner set forth in the Certificate of Incorporation.

ARTICLE II

BOARD OF DIRECTORS

Section 2.1 *Number and Term of Office*.

(a) The governing body of this Corporation shall be a Board of Directors. Subject to any rights of the holders of any series of preferred stock to elect additional directors, the Board of Directors shall be comprised of not less than three (3) members nor more than fifteen (15) members. The Board of Directors of the Corporation as of the Effective Time of the Merger (as defined in the Transaction Agreement (as defined below)) shall be comprised of eleven (11) members, 3 of which are designated Series A Preferred Stock Directors (as defined in the Corporation s Certificate of Incorporation) and 8 of which are designated Common Stock Directors (as defined in the Corporation s Certificate of Incorporation), and the members of the Board of Directors as of such time shall be the persons listed on Schedule 2.03(f) to the Transaction Agreement. For purposes of these Bylaws, Transaction Agreement means the Transaction Agreement, dated as of June 4, 2008, by and among Discovery Holding Company, the Corporation, DHC Merger Sub, Inc., Advance/Newhouse Programming Partnership, and, with respect to Section 5.14 thereof only, Advance Publications, Inc. and Newhouse Broadcasting Corporation. Subject to the rights of the holders of any series of preferred stock, the Board of Directors can be increased or decreased by resolution adopted by the affirmative vote of 75% of the members of the Board of Directors then in office; provided that the size of the Board of Directors shall automatically be reduced by one (1) member upon the death, resignation, removal or disqualification of the person who first serves as Chairman of the Board immediately after the Effective Time of the Merger; provided, further that, if the holders of the Series A Preferred Stock (as defined in the Corporation s Certificate of Incorporation) cease to have the right to elect Series A Preferred Stock Directors, then the number of directors constituting the Board of Directors at such time shall automatically be reduced by the number of Series A Preferred Stock Directors in office immediately prior to such removal. Directors need not be stockholders of the Corporation. The Corporation shall nominate the person(s) holding the offices of Chairman of the Board and President for election as directors at any meeting at which such person(s) are subject to election as directors.

(b) Except as otherwise fixed by the Corporation s Certificate of Incorporation relating to the rights of the holders of any series of preferred stock to separately elect additional directors, which directors are not required to be classified pursuant to the terms of such series of preferred stock, the Board of Directors immediately after the Effective Time shall be comprised of the Common Stock Directors and the Series A Preferred Stock Directors. The Common Stock Directors shall be divided into three classes: Class I, Class II and Class III. The Series A Preferred Stock Directors shall not be classified pursuant to the terms of such series of preferred stock. Each class of Common Stock Directors shall consist, as nearly as possible, of a number of directors equal to one-third (331/3%) of the then authorized number of Common Stock Directors. The Common Stock Directors immediately following the Effective Time of the Merger shall be assigned to the specific classes as provided in Schedule 2.03(f) to the Transaction Agreement. The term of office of the initial Class I directors shall expire at the annual meeting of stockholders in 2009; the term of office of the initial Class II directors shall expire at the annual meeting of stockholders in 2010; and the term of office of the initial Class III directors shall expire at the annual meeting of stockholders in 2011. At each annual meeting of stockholders of the Corporation the successors of that class of Common Stock Directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. The Common Stock Directors of each class will serve until the earliest to occur of their death, resignation, removal or disqualification or the election and qualification of their respective successors.

Section 2.2 *Resignations*.

Any director of the Corporation, or any member of any committee, may resign at any time by giving written notice to the Board of Directors, the Chairman of the Board or the President or Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if the time be not specified therein, then upon receipt thereof. The acceptance of such resignation shall not be necessary to make it effective unless otherwise stated therein.

Section 2.3 *Removal of Directors*.

Subject to the rights of the holders of any series of preferred stock, Common Stock Directors may be removed from office only for Cause upon the affirmative vote of the holders of at least a majority of the total voting power of the then outstanding shares entitled to elect the Common Stock Directors, and the Series A Preferred Stock Directors may be removed from office (x) for Cause upon the affirmative vote of the holders of at least a majority of the total voting power of the then outstanding shares entitled to vote upon the election of Preferred Stock Directors and Common Stock Directors, voting together as a single class, and (y) without Cause by the holders of a majority of the shares of Series A Preferred Stock outstanding, voting together as a separate class. For the purposes of these Bylaws, Cause means (1) commission of an act of fraud, misappropriation, embezzlement or similar conduct against the Corporation, (2) conviction of, or plea of guilty or *nolo contendere* to, any crime (whether or not involving the Corporation) constituting a felony, or (3) the willful engaging by the director in misconduct that is materially injurious to the Corporation or its subsidiaries, monetarily or otherwise; provided that, for purposes of this subclause (3), no action or failure to act on a director s part shall be considered willful unless done, or omitted to be done, by the director in bad faith and without reasonable belief that such action or omission was in the best interests of the Corporation.

Section 2.4 *Newly Created Directorships and Vacancies*.

Subject to the rights of the holders of any series of preferred stock, any vacancy in the office of a Common Stock Director resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on the Board of Directors, shall be filled only by the affirmative vote of a majority of Common Stock Directors then in office (even though less than a quorum) or by the sole remaining Common Stock Director. Any Common Stock Director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred or to which the new directorship is apportioned, and until such director s successor shall have been elected and qualified or until such director s earlier death, resignation or removal. Any vacancy in the office of a Series A Preferred Stock Director occurring during the period that the Series A Preferred Stock is outstanding shall be filled solely by the written consent of the holders of a majority of the outstanding shares of the Series A Preferred Stock below or by the affirmative vote of the holders of a majority of the outstanding shares of Series A Preferred Stock. Except as otherwise provided by the Corporation s Certificate of Incorporation, no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director. Notwithstanding Article I of these Bylaws, in case the entire Board of Directors shall die or resign, the President or Secretary of the Corporation, or any ten (10) stockholders may call and cause notice to be given for a special meeting of stockholders in the same manner that the Chairman of the Board may call such a meeting, and directors for the unexpired terms may be elected at such special meeting.

Section 2.5 *Meetings*.

The annual meeting of the Board of Directors may be held on such date and at such time and place as the Board of Directors determines. The annual meeting of the Board of Directors may be held immediately following the annual meeting of stockholders, and if so held, no notice of such meeting shall be necessary to the directors in order to hold the meeting legally, provided that a quorum shall be present thereat.

Notice of each regular meeting shall be furnished in writing to each member of the Board of Directors not less than five (5) days in advance of said meeting, unless such notice requirement is waived in writing by each member. No notice need be given of the meeting immediately following an annual meeting of stockholders.

Special meetings of the Board of Directors shall be held at such time and place as shall be designated in the notice of the meeting. Special meetings of the Board of Directors may be called by the Chairman of the Board, and shall be called by the President or Secretary of the Corporation upon the written request of not less than 75% of the members of the Board of Directors then in office.

Section 2.6 *Notice of Special Meetings*.

The Secretary, or in his absence any other officer of the Corporation, shall give each director notice of the time and place of holding of special meetings of the Board of Directors by mail at least ten (10) days before the meeting, or by facsimile transmission, electronic mail or personal service at least twenty-four (24) hours before the meeting unless such notice requirement is waived in writing by each member. Unless otherwise stated in the notice thereof, any and all business may be transacted at any meeting without specification of such business in the notice.

Section 2.7 *Conference Telephone Meeting*.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors, or any committee thereof, may participate in a meeting of the Board of Directors or such committee by means of telephone conference or other similar communications equipment by means of which all persons participating in the meeting can hear each other and communicate with each other, and such participation in a meeting shall constitute presence in person at such meeting.

Section 2.8 *Quorum and Organization of Meetings*.

A majority of the total number of members of the Board of Directors as constituted from time to time shall constitute a quorum for the transaction of business, but, if at any meeting of the Board of Directors (whether or not adjourned from a previous meeting) there shall be less than a quorum present, a majority of those present may adjourn the meeting to another time, date and place, and the meeting may be held as adjourned without further notice or waiver. Except as otherwise provided by law, the Corporation s Certificate of Incorporation or these Bylaws, a majority of the directors present at any meeting at which a quorum is present may decide any question brought before such meeting. Meetings shall be presided over by the Chairman of the Board or in his absence by such other person as the directors may select. The Board of Directors shall keep written minutes of its meetings. The Secretary of the Corporation shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 2.9 *Indemnification*.

To the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, the Corporation shall indemnify and hold harmless any person who is or was made, or threatened to be made, a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding (a Proceeding), whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a director or officer of the Corporation, or while a director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprises including non-profit enterprises (an Other Entity), against all liabilities and losses, judgments, fines, penalties, excise taxes, amounts paid in settlement and costs, charges and expenses (including attorneys fees and disbursements). Persons who are not directors or officers of the Corporation may be similarly indemnified in respect of service to the Corporation or to an Other Entity at the request of the Corporation to the extent the Board of Directors at any time specifies that such persons are entitled to the benefits of this Section 2.9. Except as otherwise provided in Section 2.11 hereof, the Corporation shall be required to indemnify a person in connection with a proceeding (or part thereof) commenced by such person only if the commencement of such proceeding (or part thereof) by the person was authorized in the specific case by the Board of Directors.

Section 2.10 *Advancement of Expenses*.

The Corporation shall, from time to time, reimburse or advance to any director or officer or other person entitled to indemnification hereunder the funds necessary for payment of expenses, including attorneys fees and disbursements, incurred in connection with any Proceeding in advance of the final disposition of such Proceeding; provided, however, that, if required by the laws of the State of Delaware, such expenses incurred by or on behalf of any director or officer or other person may be paid in advance of the final disposition of a Proceeding only upon receipt by the Corporation of an undertaking, by or on behalf of such director or officer (or other person indemnified hereunder), to repay any such amount so advanced if it shall ultimately be determined by final judicial decision from which there is no further right of appeal that such director, officer or other person is not entitled to be indemnified for such expenses. Except as otherwise provided in Section 2.11 hereof, the Corporation shall be required to reimburse or advance expenses incurred by a person in connection with a proceeding (or part thereof) commenced by such person only if the commencement of such proceeding (or part thereof) by the person was authorized by the Board of Directors.

Section 2.11 *Claims*.

If a claim for indemnification or advancement of expenses under this Article II is not paid in full within thirty (30) days after a written claim therefor by the person seeking indemnification or reimbursement or advancement of expenses has been received by the Corporation, the person may file suit to recover the unpaid amount of such claim and, if successful, in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Corporation shall have the burden of proving that the person seeking indemnification or reimbursement or advancement of expenses is not entitled to the requested indemnification, reimbursement or advancement of expenses under applicable law.

Section 2.12 *Amendment, Modification or Repeal*.

Any amendment, modification or repeal of the foregoing provisions of this Article II shall not adversely affect any right or protection hereunder of any person entitled to indemnification under Section 2.9 hereof in respect of any act or omission occurring prior to the time of such repeal or modification.

Section 2.13 *Nonexclusivity of Rights*.

The rights conferred on any person by this Article II shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Corporation s Certificate of Incorporation, these Bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

Section 2.14 *Other Sources*.

The Corporation s obligation, if any, to indemnify or to advance expenses to any person who was or is serving at its request as a director, officer, employee or agent of an Other Entity shall be reduced by any amount such person may collect as indemnification or advancement of expenses from such Other Entity.

Section 2.15 *Other Indemnification and Prepayment of Expenses*.

This Article II shall not limit the right of the Corporation, to the extent and in the manner permitted by law, to indemnify and to advance expenses to additional persons when and as authorized by appropriate corporate action.

Section 2.16 *Committees of the Board of Directors*.

The Board may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more Directors as alternate members of any committee to replace absent or disqualified members at any meeting of such committee. If a member of a committee shall be absent from any meeting, or disqualified from voting thereat, the remaining member or members present and not disqualified from voting, whether or not such member or members constitute a quorum, may, by a unanimous vote, appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent provided in a resolution of the Board of Directors passed as aforesaid, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be impressed on all papers that may require it, but no such committee shall have the power or authority of the Board of Directors in reference to (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the laws of the State of Delaware to be submitted to the stockholders for approval or (ii) adopting, amending or repealing any Bylaw of the Corporation. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. Unless otherwise specified in the resolution of the Board of Directors designating a committee, at all meetings of such committee a majority of the total number of members of the committee shall constitute a quorum for the transaction of business, and the vote of a majority of the members of the committee present at any meeting at which there is a quorum shall be the act of the committee. Each committee shall keep regular minutes of its meetings. Unless the Board of Directors otherwise provides, each committee designated by the Board of Directors may make, alter and repeal rules for the conduct of its business. In the absence of such rules each committee shall conduct its business in the same manner as the Board of Directors conducts its business pursuant to Article II of these Bylaws.

Section 2.17 *Directors Compensation*.

Directors shall receive such compensation for attendance at any meetings of the Board and any expenses incidental to the performance of their duties as the Board of Directors shall determine by resolution. Such compensation may be in addition to any compensation received by the members of the Board of Directors in any other capacity.

Section 2.18 *Action Without Meeting*.

Nothing contained in these Bylaws shall be deemed to restrict the power of members of the Board of Directors or any committee designated by the Board of Directors to take any action required or permitted to be taken by them at any meeting of the Board of Directors or of any committee thereof, without a meeting, if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors or the applicable committee.

ARTICLE III

OFFICERS

Section 3.1 *Executive Officers*.

The Board of Directors shall elect from its own members, at its first meeting after each annual meeting of stockholders, a Chairman of the Board and a President. The Chairman of the Board of Directors and the President of the Corporation immediately following the consummation of the transactions contemplated by the Transaction Agreement shall be the persons specified in Schedule 2.03(f) of the Transaction Agreement. The Board of Directors may also elect such Vice Presidents as in the opinion of the Board of Directors the business of the Corporation requires, a Treasurer and a Secretary, any of whom may or may not be directors. The Board of Directors may also elect, from time to time, such other or additional officers as in its opinion are desirable for the conduct of business of the Corporation. Any person may hold at one time two or more offices; provided, however, that the President shall not hold any other office except that of Chairman of the Board.

Unless otherwise provided in the resolution of the Board of Directors electing any officer, each officer shall hold office until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the Board or the President or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. The Board of Directors may remove any officer with or without cause at any time. Any such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation, but the election of an officer shall not of itself create contractual rights. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled by the Board at any regular or special meeting.

Section 3.2 *Powers and Duties of Officers*.

The Chairman will preside over all meetings of the stockholders and the Board of Directors, at which he is present, and shall perform such other duties as may be prescribed from time to time by the Board of Directors.

The President shall have overall responsibility for the management and direction of the business and affairs of the Corporation and shall exercise such powers and duties as customarily pertain to a chief executive officer and the office of the president and such other duties as may be prescribed from time to time by the Board of Directors. He shall be the senior officer of the Corporation and in the absence or disability of the Chairman of the Board, the President shall perform the duties and exercise the powers of the office of Chairman of the Board. The President may sign, execute and deliver, in the name of the Corporation, powers of attorney, contracts, bonds and other obligations.

Vice Presidents shall have such powers and perform such duties as may be assigned to them by the Chairman of the Board, the President, the executive committee, if any, or the Board of Directors. A Vice President may sign and execute contracts and other obligations pertaining to the regular course of his duties which implement policies established by the Board of Directors.

The Treasurer shall be the chief financial officer of the Corporation. Unless the Board of Directors otherwise declares by resolution, the Treasurer shall have general custody of all the funds and securities of the Corporation and general supervision of the collection and disbursement of funds of the Corporation. He shall endorse for collection on behalf of the Corporation checks, notes and other obligations, and shall deposit the same to the credit of the Corporation in such bank or banks or depository as the Board of Directors may designate. He may sign, with the Chairman of the Board, President or such other person or persons as may be designated for the purpose by the Board of Directors, all bills of exchange or promissory notes of the Corporation. He shall enter or cause to be entered regularly in the books of the Corporation a full and accurate account of all moneys received and paid by him on account of the Corporation, shall at all reasonable times exhibit his books and accounts to any director of the Corporation upon application at the office of the Corporation during business hours and, whenever required by the Board of Directors or the President, shall render a statement of his accounts. He shall perform such other duties as may be prescribed from time to time by the Board of Directors or by these Bylaws. He may be required to give bond for the faithful performance of his duties in such sum and with such surety as shall be approved by the Board of Directors. Any Assistant Treasurer shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

The Secretary shall keep the minutes of all meetings of the stockholders and of the Board of Directors. The Secretary shall cause notice to be given of meetings of stockholders, of the Board of Directors, and of any committee appointed by the Board of Directors. He or she shall have custody of the corporate seal, minutes and records relating to the conduct and acts of the stockholders and Board of Directors, which shall, at all reasonable times, be open to the examination of any director. The Secretary or any Assistant Secretary may certify the record of proceedings of the meetings of the stockholders or of the Board of Directors or resolutions adopted at such meetings, may sign or attest certificates, statements or reports required to be filed with governmental bodies or officials, may sign acknowledgments of instruments, may give notices of meetings and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 3.3 *Bank Accounts*.

In addition to such bank accounts as may be authorized in the usual manner by resolution of the Board of Directors, the Treasurer, with approval of the Chairman of the Board or the President, may authorize such bank accounts to be opened or maintained in the name and on behalf of the Corporation as he may deem necessary or appropriate, provided payments from such bank accounts are to be made upon and according to the check of the Corporation, which may be signed jointly or singularly by either the manual or facsimile signature or signatures of such officers or bonded employees of the Corporation as shall be specified in the written instructions of the Treasurer or Assistant Treasurer of the Corporation with the approval of the Chairman of the Board or the President of the Corporation.

Section 3.4 *Proxies; Stock Transfers*.

Unless otherwise provided in the Corporation s Certificate of Incorporation or directed by the Board of Directors, the Chairman of the Board or the President or any Vice President or their designees shall have full power and authority on behalf of the Corporation to attend and to vote upon all matters and resolutions at any meeting of stockholders of any corporation in which this Corporation may hold stock, and may exercise on behalf of this Corporation any and all of the rights and powers incident to the ownership of such stock at any such meeting, whether regular or special, and at all adjournments thereof, and shall have power and authority to execute and deliver proxies and consents on behalf of this Corporation in connection with the exercise by this Corporation of the rights and powers incident to the ownership of such stock, with full power of substitution or revocation.

ARTICLE IV

CAPITAL STOCK

Section 4.1 *Shares*.

The shares of the Corporation shall be represented by a certificate or shall be uncertificated. Certificates shall be signed by the Chairman of the Board of Directors or the President and by the Secretary or the Treasurer, and sealed with the seal of the Corporation. Such seal may be a facsimile, engraved or printed. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to Sections 151, 156, 202(a) or 218(a) of the Delaware General Corporation Law or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences and/or rights.

Any of or all the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such an officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such officer, transfer agent or registrar had not ceased to hold such position at the time of its issuance.

Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

Section 4.2 *Transfer of Shares*.

(a) Upon surrender to the Corporation or the transfer agent of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares such uncertificated shares shall be cancelled, and the issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation.

(b) The person in whose name shares of stock stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes, and the Corporation shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

Section 4.3 *Lost Certificates*.

The Board of Directors or any transfer agent of the Corporation may direct a new certificate or certificates or uncertificated shares representing stock of the Corporation to be issued in place of any certificate or certificates theretofore issued by the Corporation, alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates or uncertificated shares, the Board of Directors (or any transfer agent of the Corporation authorized to do so by a resolution of the Board of Directors) may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum as the Board of Directors (or any transfer agent so authorized) shall direct to indemnify the Corporation and the transfer agent against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificates or uncertificated shares, and such requirement may be general or confined to specific instances.

Section 4.4 *Transfer Agent and Registrar*.

The Board of Directors may appoint one or more transfer agents and one or more registrars, and may require all certificates for shares to bear the manual or facsimile signature or signatures of any of them.

Section 4.5 _Regulations_.

The Board of Directors shall have power and authority to make all such rules and regulations as it may deem expedient concerning the issue, transfer, registration, cancellation and replacement of certificates representing stock of the Corporation or uncertificated shares, which rules and regulations shall comply in all respects with the rules and regulations of the transfer agent.

ARTICLE V

GENERAL PROVISIONS

Section 5.1 _Offices_.

The Corporation shall maintain a registered office in the State of Delaware as required by the laws of the State of Delaware. The Corporation may also have offices in such other places, either within or without the State of Delaware, as the Board of Directors may from time to time designate or as the business of the Corporation may require.

Section 5.2 _Corporate Seal_.

The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization, and the words Corporate Seal and Delaware.

Section 5.3 _Fiscal Year_.

The fiscal year of the Corporation shall be determined by resolution of the Board of Directors.

Section 5.4 _Notices and Waivers Thereof_.

Whenever any notice is required by the laws of the State of Delaware, the Corporation s Certificate of Incorporation or these Bylaws to be given to any stockholder, director or officer, such notice, except as otherwise provided by law, may be given personally, or by mail, or, in the case of directors or officers, by electronic mail or facsimile transmission, addressed to such address as appears on the books of the Corporation. Any notice given by electronic mail or facsimile transmission shall be deemed to have been given when it shall have been transmitted and any notice given by mail shall be deemed to have been given three (3) business days after it shall have been deposited in the United States mail with postage thereon prepaid.

Whenever any notice is required to be given by law, the Corporation s Certificate of Incorporation, or these Bylaws, a written waiver thereof, signed by the person entitled to such notice, whether before or after the meeting or the time stated therein, shall be deemed equivalent in all respects to such notice to the full extent permitted by law.

Section 5.5 _Saving Clause_.

These Bylaws are subject to the provisions of the Corporation s Certificate of Incorporation and applicable law. In the event any provision of these Bylaws is inconsistent with the Corporation s Certificate of Incorporation or the corporate laws of the State of Delaware, such provision shall be invalid to the extent only of such conflict, and such conflict shall not affect the validity of any other provision of these Bylaws.

Section 5.6 _Amendments_.

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, subject to the rights of the holders of any series of preferred stock, the Board of Directors, by action taken by the affirmative vote of not less than 75% of the members of the Board of Directors then in office, is hereby expressly authorized and empowered to adopt, amend or repeal any provision of the Bylaws of this Corporation.

Subject to the rights of the holders of any series of preferred stock, these Bylaws may be adopted, amended or repealed by the affirmative vote of the holders of not less than 80% of the total voting power of the then outstanding capital stock of the Corporation entitled to vote thereon; provided, however, that this paragraph shall not apply to, and no vote of the stockholders of the Corporation shall be required to authorize, the adoption, amendment or repeal of any provision of the Bylaws by the Board of Directors in accordance with the preceding paragraph.

Appendix F

FINANCIAL STATEMENTS
OF
ASCENT MEDIA CORPORATION

This Appendix F sets forth the historical combined financial statements of Ascent Media Group, which we refer to in this proxy statement/prospectus as Ascent Media Corporation or AMC. Please note that references in this Appendix F to the Company refer to AMC as defined in this proxy statement/prospectus.

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ASCENT MEDIA GROUP

Condensed Combined Balance Sheets

	March 31, 2008	December 31, 2007
	Amounts in thousands	
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 218,625	201,633
Trade receivables, net	162,648	134,120
Prepaid expenses	14,316	13,658
Deferred income tax assets, net	11,151	11,150
Other current assets	3,558	2,915
Total current assets	410,298	363,476
Investments in marketable securities		23,545
Property and equipment, net	258,512	265,123
Goodwill (note 5)	127,293	127,293
Deferred income tax assets, net	32,816	32,928
Other assets, net	18,099	18,621
Total assets	$ 847,018	830,986
Liabilities and Parent s Investment		
Current liabilities:		
Accounts payable	$ 47,970	25,761
Accrued payroll and related liabilities	21,338	24,594
Other accrued liabilities	34,906	34,897
Deferred revenue	23,043	24,492
Income taxes payable	15,788	12,764
Total current liabilities	143,045	122,508
Other liabilities	21,081	21,582
Total liabilities	164,126	144,090
Commitments and contingencies (note 7)		
Parent s investment:		
Parent s investment	1,437,545	1,437,520
Accumulated deficit	(765,852)	(761,337)
Accumulated other comprehensive earnings	11,199	10,713
Total parent s investment	682,892	686,896

Total liabilities and parent s investment	$ 847,018	830,986

See accompanying notes to condensed combined financial statements.

ASCENT MEDIA GROUP

Condensed Combined Statements of Operations and Comprehensive Loss

	Three Months Ended March 31, 2008	2007
	Amounts in thousands, except per share amounts (Unaudited)	
Net revenue	$ 173,843	151,853
Operating expenses:		
Cost of services	125,664	104,799
Selling, general, and administrative, including stock-based compensation	32,867	32,904
Restructuring and other charges	1,107	
Depreciation and amortization	16,002	15,267
	175,640	152,970
Operating loss	(1,797)	(1,117)
Other income:		
Interest income	2,147	2,701
Other expense, net	(614)	(464)
	1,533	2,237
Earnings (loss) before income taxes	(264)	1,120
Income tax expense	(4,251)	(2,098)
Net loss	(4,515)	(978)
Other comprehensive earnings, net of taxes:		
Foreign currency translation adjustments	486	437
Unrealized holding gains arising during the period		2
Other comprehensive earnings	486	439
Comprehensive loss	$ (4,029)	(539)
Pro forma loss per common share Series A and Series B (note 4)	$ (.32)	(.07)

See accompanying notes to condensed combined financial statements.

ASCENT MEDIA GROUP

Condensed Combined Statements of Cash Flows

	Three Months Ended March 31, 2008	2007
	Amounts in thousands (Unaudited)	
Cash flows from operating activities:		
Net loss	$ (4,515)	(978)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16,002	15,267
Stock-based compensation	(276)	829
Deferred income tax expense	35	1,577
Other non-cash credits, net	(723)	(449)
Changes in assets and liabilities:		
Trade receivables	(28,334)	2,124
Prepaid expenses and other current assets	(1,038)	(1,457)
Payables and other liabilities	20,694	(11,409)
Net cash provided by operating activities	1,845	5,504
Cash flows from investing activities:		
Capital expenditures	(8,400)	(13,281)
Net sales (purchases) of marketable securities	23,545	(666)
Other investing activities, net	145	3
Net cash provided by (used in) investing activities	15,290	(13,944)
Cash flows from financing activities:		
Net cash transfers from parent	25	4,980
Payment of capital lease obligation	(168)	(52)
Net cash provided (used) by financing activities	(143)	4,928
Net increase (decrease) in cash and cash equivalents	16,992	(3,512)
Cash and cash equivalents at beginning of period	201,633	154,455
Cash and cash equivalents at end of period	$ 218,625	150,943
Non-cash investing and financing activity:		
Capital lease	$	5,774

See accompanying notes to condensed combined financial statements.

ASCENT MEDIA GROUP

Condensed Combined Statement of Parent s Investment
Three months ended March 31, 2008

	Parent s Investment	Accumulated Deficit	Accumulated Other Comprehensive Earnings	Total Parent s Investment
		Amounts in thousands (Unaudited)		
Balance at January 1, 2008	$ 1,437,520	(761,337)	10,713	686,896
Net loss		(4,515)		(4,515)
Other comprehensive earnings			486	486
Net cash transfers from parent	25			25
Balance at March 31, 2008	$ 1,437,545	(765,852)	11,199	682,892

See accompanying notes to condensed combined financial statements.

ASCENT MEDIA GROUP

Notes to Condensed Combined Financial Statements
(Unaudited)

(1) Basis of Presentation

The accompanying condensed combined financial statements of Ascent Media Group (AMG or the Company) represent a combination of the historical financial information of (1) Ascent Media Group, LLC (Ascent Media), a wholly-owned subsidiary of Discovery Holding Company (DHC), (2) Ascent Media CANS, LLC (dba AccentHealth) (AccentHealth), a wholly-owned subsidiary of DHC and (3) cash and investment assets of DHC, which are collectively referred to as the Spinco Entities in the Reorganization Agreement. The AMC Spin-Off (see note 2) is expected to be accounted for at historical cost due to the pro rata nature of the distribution. Upon consummation of the AMC Spin-Off, Ascent Media Corporation (AMC) will own the assets and businesses that comprise AMG.

AMG is comprised of two operating segments. AMG 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 captured in principal photography or creates new three dimensional images and animation sequences. In addition, the creative services group provides a full complement of facilities and services necessary to optimize, archive, manage and repurpose completed media assets for global distribution via freight, satellite, fiber, and the Internet. The network 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 programming providers in North America, Europe, and Asia. Additionally, the network services group provides systems integration, design, consulting, engineering and project management services.

AccentHealth operates an advertising-supported captive audience television network in doctor office waiting rooms nationwide, and is included as part of the network services group for financial reporting purposes.

The accompanying interim condensed combined financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed combined financial statements should be read in conjunction with the Company s December 31, 2007 combined financial statements and notes thereto found elsewhere herein.

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 combined financial statements primarily relate to valuation of goodwill, other intangible assets, long-lived assets, deferred tax assets, and the amount of the allowance for doubtful accounts. Actual results could differ from the estimates upon which the carrying values were based.

(2) AMC Spin-Off Transaction

During the fourth quarter of 2007, The Board of Directors of DHC (the Board) approved a resolution to spin off the capital stock of Ascent Media Corporation to the holders of DHC Series A and Series B common stock (the AMC Spin-Off). The AMC Spin-Off was approved in connection with a proposed transaction between DHC and Advance/Newhouse Programming Partnership (Advance/Newhouse), pursuant to which DHC and Advance/Newhouse will combine their respective indirect interests in Discovery Communications, LLC, a leading global media and entertainment company. It is a condition to the AMC Spin-Off that the agreement between DHC and Advance/Newhouse relating to that transaction shall be in effect and that all conditions precedent to that transaction (other than the AMC Spin-Off and certain conditions to be satisfied at the closing thereof) shall have been satisfied or, to the extent waivable, waived.

The AMC Spin-Off will be effected as a distribution by DHC to holders of its Series A and Series B common stock of shares of Series A and Series B common stock of Ascent Media Corporation, which immediately prior to

ASCENT MEDIA GROUP

Notes to Condensed Combined Financial Statements (Continued)

the AMC Spin-Off will hold the assets and businesses comprised by the Company. The AMC Spin-Off will not involve the payment of any consideration by the holders of DHC common stock and is intended to qualify as a transaction under Sections 368(a) and 355 of the Code for U.S. federal income tax purposes. The AMC Spin-Off is expected to occur in the third quarter of 2008, and will be made as a dividend to holders of record of DHC common stock as of the close of business on the date of record for the AMC Spin-Off.

Following the AMC Spin-Off, Ascent Media Corporation and DHC will operate independently, and neither will have any stock ownership, beneficial or otherwise, in the other. In connection with the AMC Spin-Off, Ascent Media Corporation and DHC will enter into certain agreements in order to govern certain of the ongoing relationships between Ascent Media Corporation and DHC after the AMC Spin-Off and to provide mechanisms 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 AMC Spin-Off and cross indemnities. Pursuant to the Services Agreement, Ascent Media will provide a subsidiary of DHC with certain general and administrative services for a one-year period beginning on the date of the AMC Spin-Off, including accounting, finance, human resources, information technology, payroll and real estate management services. In consideration for such services, DHC s subsidiary will pay Ascent Media a fee of $1,000,000, which will be paid quarterly in advance and will not be refundable. DHC s subsidiary will also reimburse Ascent Media for any out-of-pocket expenses incurred by Ascent Media in providing these services. In addition, during the term of the Services Agreement, Ascent Media will make cash advances to a subsidiary of DHC from time to time, in an aggregate principal amount not to exceed $1.5 million, as reasonably required to meet this DHC subsidiary s current payroll and to pay third-party vendors in the ordinary course of its business. Such advances will be due and payable in full on the first anniversary of the AMC Spin-Off and will bear interest at the prime rate, calculated on an average daily balance basis.

Under the Tax Sharing Agreement, Ascent Media Corporation will be responsible for all taxes attributable to it or one of its subsidiaries, whether accruing before, on or after the AMC Spin-Off (other than any such taxes for which DHC is responsible under the Tax Sharing Agreement). Ascent Media Corporation has also agreed to be responsible for and to indemnify DHC with respect to (i) all taxes attributable to DHC or any of its subsidiaries (other than Discovery) for any tax period that ends on or before the date of the AMC Spin-Off (and for any tax period that begins on or before and ends after the date of the AMC Spin-Off, for the portion of that period on or before the date of the AMC Spin-Off), other than such taxes arising as a result of the AMC Spin-Off and related internal restructuring of DHC and (ii) all taxes arising as a result of the AMC Spin-Off or the internal restructuring of DHC to the extent such taxes are not the responsibility of DHC under the Tax Sharing Agreement. DHC will be responsible for (i) all U.S. federal, state, local and foreign income taxes attributable to DHC or any of its subsidiaries for any tax period that begins after the date of the AMC Spin-Off (and for any tax period that begins on or before and ends after the date of the AMC Spin-Off, for the portion of that period after the date of the AMC Spin-Off), other than such taxes arising as a result of the AMC Spin-Off and related internal restructuring of DHC, (ii) all taxes arising as a result of the AMC Spin-Off to the extent such taxes arise as a result of any breach on or after the date of the AMC Spin-Off of any representation, warranty, covenant or other obligation of DHC or of a subsidiary or shareholder of DHC made in connection with the issuance of the tax opinion relating to the AMC Spin-Off or in the tax sharing agreement, and (iii) all taxes arising as a result of such internal restructuring of DHC to the extent such taxes arise as a result of any action undertaken after the date of the AMC Spin-Off by DHC or a subsidiary or shareholder of DHC.

Pursuant to a Services Agreement between Liberty Media Corporation (Liberty) and Ascent Media Corporation, Liberty will provide certain general and administrative services including legal, tax, accounting, treasury and investor relations support. Ascent Media Corporation will reimburse Liberty for direct, out-of-pocket expenses incurred by Liberty in providing these services and for Ascent Media Corporation s allocable portion of

ASCENT MEDIA GROUP

Notes to Condensed Combined Financial Statements (Continued)

costs associated with any shared services or personnel. Liberty and Ascent Media Corporation have agreed that they will review cost allocations every six months and adjust such charges, if appropriate.

(3) Long-Term Incentive Compensation

2006 Ascent Media Long-Term Incentive Plan

Effective August 3, 2006, Ascent Media adopted its 2006 Long-Term Incentive Plan (the 2006 Plan). The 2006 Plan provides the terms and conditions for the grant of, and payment with respect to, Phantom Appreciation Rights (PARs) granted to certain officers and other key personnel of Ascent Media. The value of a single PAR (PAR Value) is equal to the positive amount (if any) of (a) the sum of (i) 6% of cumulative free cash flow (as defined in the 2006 Plan) over a period of up to six years, divided by 500,000, plus (ii) the calculated value of Ascent Media, based on a formula set forth in the 2006 Plan, divided by 10,000,000, over (b) a baseline value determined at the time of grant. The 2006 Plan is administered by a committee that consists of two individuals appointed by DHC. Grants are determined by the committee, with the first grant occurring on August 3, 2006. The maximum number of PARs that may be granted under the 2006 Plan is 500,000, and there were 483,500 PARs granted as of March 31, 2008. The PARs vest quarterly over a three year period, and are payable on March 31, 2012 (or, if earlier, on the six-month anniversary of a grantee s termination of employment without cause). Ascent Media records a liability and a charge to expense based on the PAR Value and percent vested at each reporting period.

Ascent Media Corporation 2008 Incentive Plan

The Ascent Media Corporation 2008 Incentive Plan (the incentive plan) will become available to certain employees and independent contractors upon the effective date of the AMC Spin-Off. The incentive plan is designed to provide additional compensation to certain employees and independent contractors for services rendered, to encourage their investment in AMC s capital stock and to attract persons of exceptional ability to become officers and employees. The number of individuals who will receive awards under the incentive plan will vary from year to year and is not predictable. Awards may be granted as non-qualified stock options, stock appreciation rights, restricted shares, stock units, cash awards, performance awards or any combination of the foregoing (collectively, awards). The maximum number of shares of AMC s common stock with respect to which awards may be granted under the incentive plan is 2,000,000, subject to anti-dilution and other adjustment provisions of the incentive plan. The base or exercise price of an award may not be less than fair market value on the day it is granted.

Other

Upon completion of the AMC Spin-Off and the related restructuring of DHC, DHC stock options held by a certain officer and director of DHC will be converted into an option to purchase shares of the applicable series of AMC common stock and an option to purchase shares of the applicable series of common stock of DHC s successor. AMG will have responsibility for the options to purchase AMC common stock and accordingly, will record compensation expense related to such options. The amount of this expense is not expected to be significant. DHC s successor will retain responsibility for its options.

(4) Pro Forma Loss Per Common Share Series A and Series B

Pro forma loss per common share (EPS) is computed by dividing net 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 14,052,490 shares, which is the number of shares that would have been issued on March 31, 2008 if the AMC Spin-Off had been completed on such date. Dilutive EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented. On the effective date of the AMC Spin-Off, AMC Series A stock options will be granted to a certain officer of the Company. The number of stock options is not estimable at this time since the calculation is partially dependent upon the trading price of DHC

ASCENT MEDIA GROUP

Notes to Condensed Combined Financial Statements (Continued)

and AMC common stock on days prior to and after the AMC Spin-Off, but they are not expected to have a significant dilutive impact on pro forma EPS as reported in the accompanying condensed combined statements of operations.

(5) Goodwill

Goodwill is comprised of the following:

	March 31, 2008	December 31, 2007
	Amounts in thousands	
Goodwill		
Creative Services group	$ 95,069	95,069
Network Services group	32,224	32,224
Total goodwill	$ 127,293	127,293

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2007. However, the effective date of SFAS 157 has been deferred to fiscal years beginning after November 15, 2008 and interim periods within those years, and AMG has elected the deferral provision, as it relates to fair value measurement requirements for (i) nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis (e.g. asset retirement obligations, restructuring liabilities and assets and liabilities acquired in business combinations) and (ii) fair value measurements required for impairments under SFAS No. 142, *Goodwill and Other Intangible Assets* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

(6) Income Taxes

During the first quarter of 2008, Liberty reached an agreement with the IRS with respect to certain tax items that related to periods prior to the Company 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 had no expectation that it 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.

As of January 1, 2008, the Company s tax reserves related to unrecognized tax benefits for uncertain tax positions was not significant. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease during the year ended December 31, 2008.

When the tax law requires interest to be paid on an underpayment of income taxes, the Company recognizes interest expense from the first period the interest would begin accruing according to the relevant tax law. Such interest expense is included in other income, net in the accompanying condensed combined statements of operations. Any accrual of penalties related to underpayment of income taxes on uncertain tax positions is included in other income, net in the accompanying condensed combined statements of operations. As of January 1, 2008, accrued interest and penalties related to uncertain tax positions was not significant.

ASCENT MEDIA GROUP

Notes to Condensed Combined Financial Statements (Continued)

(7) Commitments and Contingencies

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

The Company and its subsidiaries lease offices, satellite transponders and certain equipment under capital and operating lease arrangements.

On December 31, 2003, Ascent Media acquired the operations of Sony Electronic s systems integration center business and related assets, which we refer to as SIC. In exchange, Sony received the right to be paid in 2008 an amount equal to 20% of the value of the combined business of Ascent Media s wholly owned subsidiary, AF Associates, Inc. and SIC. The value of 20% of the combined business of AF Associates and SIC is estimated at $6,100,000, which liability is included in other accrued liabilities in the accompanying condensed combined balance sheets. SIC is included in Ascent Media s network services group.

(8) Related Party Transactions

Ascent Media provides services, such as satellite uplink, systems integration, origination, and post-production, to Discovery, an affiliate of DHC. Revenue recorded by Ascent Media for these services for the three months ended March 31, 2008 and 2007 aggregated $9,311,000 and $4,960,000, respectively.

(9) Information About Operating Segments

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. Based on the foregoing criteria, the Company s business units have been aggregated into two reportable segments: the creative services group and the network services group.

The 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. These services are referred to generally in the entertainment industry as post-production services. In addition, the creative services group provides a full complement of facilities and services necessary to optimize, archive, manage and repurpose completed media assets for global distribution via freight, satellite, fiber and the Internet. The network 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 programming providers in North America, Europe and Asia. Additionally, the network services group provides systems integration, design, consulting, engineering and project management services.

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 adjusted OIBDA. The Company defines adjusted OIBDA as revenue less cost of services and selling, general and administrative expense (excluding stock and other equity-based compensation and accretion expense on asset retirement obligations). The Company believes this is an important indicator of the operational strength and performance of its businesses, including the businesses ability to service debt and capital expenditures. In addition, this measure is used by 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, accretion expense on asset retirement obligations and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, adjusted

ASCENT MEDIA GROUP

Notes to Condensed Combined Financial Statements (Continued)

OIBDA 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.

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.

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

	Reportable Segments				
	Creative Services Group	Network Services Group(1)	Total	Other(2)	Combined Total
	Amounts in thousands				
Three months ended March 31, 2008					
Revenue from external customers	$ 76,320	97,523	173,843		173,843
Adjusted OIBDA	$ 3,763	17,170	20,933	(5,975)	14,958
Capital expenditures	$ 3,601	3,728	7,329	1,071	8,400
Total assets	$ 347,997	265,268	613,265	233,753	847,018
Three months ended March 31, 2007					
Revenue from external customers	$ 88,683	63,170	151,853		151,853
Adjusted OIBDA	$ 12,302	8,288	20,590	(5,610)	14,980
Capital expenditures	$ 6,007	5,587	11,594	1,687	13,281

(1) Included in network services group revenue is broadcast services revenue of $42,588,000 and $37,415,000 and systems integration revenue of $54,935,000 and $25,755,000 for the three months ended March 31, 2008 and 2007, respectively.

(2) Amounts shown in other provide a reconciliation of total reportable segments to the Company s combined total. Included in other is (i) SG&A expenses and capital expenditures incurred at a corporate level and (ii) assets held at a corporate level mainly comprised of cash, investments in marketable securities and deferred income tax assets.

The following table provides a reconciliation of combined segment adjusted OIBDA to earnings (loss) before income taxes.

	Three Months Ended March 31,	
	2008	2007
	Amounts in thousands	

Combined segment adjusted OIBDA	$ 20,933	20,590
Corporate selling, general and administrative expenses	(5,975)	(5,610)
Stock-based compensation	276	(829)
Restructuring and other charges	(1,107)	
Depreciation and amortization	(16,002)	(15,267)
Other, net	1,611	2,236
Earnings (loss) before income taxes	$ (264)	1,120

ASCENT MEDIA GROUP

Notes to Condensed Combined Financial Statements (Continued)

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	Amounts in thousands	
Revenue		
United States	$ 134,710	115,183
United Kingdom	33,042	30,140
Other countries	6,091	6,530
	$ 173,843	151,853

	March 31, 2008	December 31, 2007
	Amounts in thousands	
Property and equipment, net		
United States	$ 171,283	173,680
United Kingdom	65,661	68,548
Other countries	21,568	22,895
	$ 258,512	265,123

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Discovery Holding Company:

We have audited the accompanying combined balance sheets of Ascent Media Group (a combination of certain assets and businesses owned by Discovery Holding Company, as defined in Note 1) as of December 31, 2007 and 2006, and the related combined statements of operations and comprehensive loss, cash flows and parent s investment for each of the years in the three-year period ended December 31, 2007. These combined financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Ascent Media Group as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in note 3 to the accompanying combined financial statements, effective January 1, 2006, Ascent Media Group adopted Statement 123R, *Share-Based Payment*.

/s/ KPMG LLP

Denver, Colorado
June 13, 2008

ASCENT MEDIA GROUP

Combined Balance Sheets
December 31, 2007 and 2006

		2007	2006
		Amounts in thousands	
Assets			
Current assets:			
Cash and cash equivalents	$	201,633	154,455
Trade receivables, net		134,120	135,045
Prepaid expenses		13,658	10,334
Deferred income tax assets, net (note 9)		11,150	13,494
Other current assets		2,915	3,176
Total current assets		363,476	316,504
Investments in marketable securities		23,545	51,837
Property and equipment, net (note 5)		265,123	275,368
Goodwill (note 6)		127,293	292,259
Deferred income tax assets, net (note 9)		32,928	650
Other assets, net		18,621	16,301
Total assets	$	830,986	952,919
Liabilities and Parent s Investment			
Current liabilities:			
Accounts payable	$	25,761	42,644
Accrued payroll and related liabilities		24,594	30,095
Other accrued liabilities		34,897	23,580
Deferred revenue		24,492	15,780
Income taxes payable		12,764	2,102
Total current liabilities		122,508	114,201
Other liabilities		21,582	24,022
Total liabilities		144,090	138,223
Commitments and contingencies (notes 12 and 13)			
Parent s investment:			
Parent s investment		1,437,520	1,435,326
Accumulated deficit		(761,337)	(629,261)
Accumulated other comprehensive earnings		10,713	8,631
Total parent s investment		686,896	814,696
Total liabilities and parent s investment	$	830,986	952,919

See accompanying notes to combined financial statements.

ASCENT MEDIA GROUP

Combined Statements of Operations and Comprehensive Loss
Years ended December 31, 2007, 2006 and 2005

	2007	2006	2005
	Amounts in thousands, except per share amounts		
Net revenue	$ 631,425	608,153	612,774
Operating expenses:			
Cost of services	431,367	404,619	396,784
Selling, general, and administrative, including stock-based compensation (note 10)	129,063	140,917	138,734
Restructuring and other charges (note 7)	761	10,832	3,695
Gain on sale of operating assets	(421)	(2,017)	(4,676)
Depreciation and amortization	65,544	65,306	72,134
Impairment of goodwill (note 6)	165,347	93,402	
	791,661	713,059	606,671
Operating income (loss)	(160,236)	(104,906)	6,103
Other income:			
Interest income	11,285	10,190	4,373
Other expense, net	(1,813)	(360)	(654)
	9,472	9,830	3,719
Earnings (loss) before income taxes	(150,764)	(95,076)	9,822
Income tax benefit (expense) (note 9)	18,433	12,068	(852)
Net earnings (loss)	$ (132,331)	(83,008)	8,970
Other comprehensive earnings (loss), net of taxes (note 11):			
Foreign currency translation adjustments	2,543	13,448	(10,629)
Minimum pension liability adjustment	(461)		710
Other comprehensive earnings (loss)	2,082	13,448	(9,919)
Comprehensive loss	$ (130,249)	(69,560)	(949)
Unaudited pro forma earnings (loss) per common share Series A and Series B (note 3)	$ (9.42)	(5.91)	0.64

See accompanying notes to combined financial statements.

ASCENT MEDIA GROUP

Combined Statements of Cash Flows
Years ended December 31, 2007, 2006 and 2005

	2007	2006	2005
		Amounts in thousands (See note 4)	
Cash flows from operating activities:			
Net earnings (loss)	$ (132,331)	(83,008)	8,970
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	65,544	65,306	72,134
Stock-based compensation	262	934	3,517
Payments for stock-based compensation			(2,073)
Impairment of goodwill	165,347	93,402	
Deferred income tax expense (benefit)	(30,036)	(14,156)	2,394
Other non-cash credits, net	(1,948)	(1,328)	(3,876)
Changes in assets and liabilities, net of acquisitions:			
Trade receivables	1,540	(9,753)	16,746
Prepaid expenses and other current assets	(7,214)	1,383	10,665
Payables and other liabilities	(305)	26,437	(20,315)
Net cash provided by operating activities	60,859	79,217	88,162
Cash flows from investing activities:			
Capital expenditures	(45,095)	(75,264)	(87,821)
Cash paid for acquisition, net of cash acquired		(46,793)	
Net sales (purchases) of marketable securities	28,292	(51,837)	
Cash proceeds from dispositions	1,295	5,601	15,201
Other investing activities, net	274	993	(1,493)
Net cash used in investing activities	(15,234)	(167,300)	(74,113)
Cash flows from financing activities:			
Net cash transfers from (to) parent	2,194	(7,182)	201,242
Payment of capital lease obligation	(641)	(7)	(5)
Net cash provided by (used in) financing activities	1,553	(7,189)	201,237
Net increase (decrease) in cash and cash equivalents	47,178	(95,272)	215,286
Cash and cash equivalents at beginning of year	154,455	249,727	34,441
Cash and cash equivalents at end of year	$ 201,633	154,455	249,727

See accompanying notes to combined financial statements.

ASCENT MEDIA GROUP

Combined Statements of Parent s Investment
Years ended December 31, 2007, 2006 and 2005

	Parent s Investment	Accumulated Deficit	Accumulated Other Comprehensive Earnings (Loss)	Total Parent s Investment
	Amounts in thousands			
Balance at January 1, 2005	$ 1,237,796	(555,223)	5,073	687,646
Net earnings		8,970		8,970
Other comprehensive loss			(9,919)	(9,919)
Stock compensation	2,091			2,091
Net cash transfers from parent	201,242			201,242
Other	(29)		29	
Balance at December 31, 2005	1,441,100	(546,253)	(4,817)	890,030
Net loss		(83,008)		(83,008)
Other comprehensive earnings			13,448	13,448
Stock compensation	913			913
Net cash transfers to parent	(7,182)			(7,182)
Other	495			495
Balance at December 31, 2006	1,435,326	(629,261)	8,631	814,696
Net loss		(132,331)		(132,331)
Other comprehensive earnings			2,082	2,082
Net cash transfers from parent	2,194			2,194
Cumulative effect of accounting change (note 9)		255		255
Balance at December 31, 2007	$ 1,437,520	(761,337)	10,713	686,896

See accompanying notes to combined financial statements.

ASCENT MEDIA GROUP

Notes to Combined Financial Statements
December 31, 2007, 2006 and 2005

(1) Basis of Presentation

The accompanying combined financial statements of Ascent Media Group (AMG or the Company) represent a combination of the historical financial information of (1) Ascent Media Group, LLC (Ascent Media), a wholly-owned subsidiary of Discovery Holding Company (DHC) effective July 21, 2005 and of Liberty Media Corporation (Liberty) for periods prior to the July 21, 2005 spin off of DHC by Liberty (the 2005 Spin Off), (2) Ascent Media CANS, LLC (dba AccentHealth) (AccentHealth), a wholly-owned subsidiary of DHC and (3) cash and investment assets of DHC, which are collectively referred to as the Spinco Entities in the Reorganization Agreement. The 2005 Spin Off was effected as a dividend by Liberty to holders of its Series A and Series B common stock of shares of DHC Series A and Series B common stock, respectively. The AMC Spin-Off (see note 2) is expected to be accounted for at historical cost due to the pro rata nature of the distribution. Upon consummation of the AMC Spin-Off, Ascent Media Corporation (AMC) will own the assets and businesses that comprise AMG.

AMG is comprised of two operating segments. AMG 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 captured in principal photography or creates new three dimensional images and animation sequences. In addition, the creative services group provides a full complement of facilities and services necessary to optimize, archive, manage and repurpose completed media assets for global distribution via freight, satellite, fiber, and the Internet. The network 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 programming providers in North America, Europe, and Asia. Additionally, the network services group provides systems integration, design, consulting, engineering and project management services.

Substantially all of the assets of AccentHealth were acquired by AMG in January 2006, and are included as part of the network services group for financial reporting purposes. AccentHealth operates an advertising-supported captive audience television network in doctor office waiting rooms nationwide.

(2) AMC Spin-Off Transaction

During the fourth quarter of 2007, The Board of Directors of DHC (the Board) approved a resolution to spin off the capital stock of Ascent Media Corporation to the holders of DHC Series A and Series B common stock (the AMC Spin-Off). The AMC Spin-Off was approved in connection with a proposed transaction between DHC and Advance/Newhouse Programming Partnership (Advance/Newhouse), pursuant to which DHC and Advance/Newhouse will combine their respective indirect interests in Discovery Communications, LLC, a leading global media and entertainment company. It is a condition to the AMC Spin-Off that the agreement between DHC and Advance/Newhouse relating to that transaction shall be in effect and that all conditions precedent to that transaction (other than the AMC Spin-Off and certain conditions to be satisfied at the closing thereof) shall have been satisfied or, to the extent waivable, waived.

The AMC Spin-Off will be effected as a distribution by DHC to holders of its Series A and Series B common stock of shares of Series A and Series B common stock of Ascent Media Corporation. The AMC Spin-Off will not involve the payment of any consideration by the holders of DHC common stock and is intended to qualify as a transaction under Sections 368(a) and 355 of the Code for U.S. federal income tax purposes. The AMC Spin-Off is expected to occur in the third quarter of 2008, and will be made as a dividend to holders of record of DHC common stock as of the close of business on the date of record for the AMC Spin-Off.

Following the AMC Spin-Off, Ascent Media Corporation and DHC will operate independently, and neither will have any stock ownership, beneficial or otherwise, in the other. In connection with the AMC Spin-Off, Ascent Media Corporation and DHC will enter into certain agreements in order to govern certain of the ongoing

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

relationships between Ascent Media Corporation and DHC after the AMC Spin-Off and to provide mechanisms 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 AMC Spin-Off and cross indemnities. Pursuant to the Services Agreement, Ascent Media will provide a subsidiary of DHC with certain general and administrative services for a one-year period beginning on the date of the AMC Spin-Off, including accounting, finance, human resources, information technology, payroll and real estate management services. In consideration for such services, DHC s subsidiary will pay Ascent Media a fee of $1,000,000, which will be paid quarterly in advance and will not be refundable. DHC s subsidiary will also reimburse Ascent Media for any out-of-pocket expenses incurred by Ascent Media in providing these services. In addition, during the term of the Services Agreement, Ascent Media will make cash advances to such subsidiary of DHC from time to time, in an aggregate principal amount not to exceed $1.5 million, as reasonably required to meet this DHC subsidiary s current payroll and to pay third-party vendors in the ordinary course of its business. Such advances will be due and payable in full on the first anniversary of the AMC Spin-Off and will bear interest at the prime rate, calculated on an average daily balance basis.

Under the Tax Sharing Agreement, Ascent Media Corporation will be responsible for all taxes attributable to it or one of its subsidiaries, whether accruing before, on or after the AMC Spin-Off (other than any such taxes for which DHC is responsible under the Tax Sharing Agreement). Ascent Media Corporation has also agreed to be responsible for and to indemnify DHC with respect to (i) all taxes attributable to DHC or any of its subsidiaries (other than Discovery) for any tax period that ends on or before the date of the AMC Spin-Off (and for any tax period that begins on or before and ends after the date of the AMC Spin-Off, for the portion of that period on or before the date of the AMC Spin-Off), other than such taxes arising as a result of the AMC Spin-Off and related internal restructuring of DHC and (ii) all taxes arising as a result of the AMC Spin-Off or the internal restructuring of DHC to the extent such taxes are not the responsibility of DHC under the Tax Sharing Agreement. DHC will be responsible for (i) all U.S. federal, state, local and foreign income taxes attributable to DHC or any of its subsidiaries for any tax period that begins after the date of the AMC Spin-Off (and for any tax period that begins on or before and ends after the date of the AMC Spin-Off, for the portion of that period after the date of the AMC Spin-Off), other than such taxes arising as a result of the AMC Spin-Off and related internal restructuring of DHC, (ii) all taxes arising as a result of the AMC Spin-Off to the extent such taxes arise as a result of any breach on or after the date of the AMC Spin-Off of any representation, warranty, covenant or other obligation of DHC or of a subsidiary or shareholder of DHC made in connection with the issuance of the tax opinion relating to the AMC Spin-Off or in the tax sharing agreement, and (iii) all taxes arising as a result of such internal restructuring of DHC to the extent such taxes arise as a result of any action undertaken after the date of the AMC Spin-Off by DHC or a subsidiary or shareholder of DHC.

Pursuant to a Services Agreement between Liberty and Ascent Media Corporation, Liberty will provide certain general and administrative services including legal, tax, accounting, treasury and investor relations support. Ascent Media Corporation will reimburse Liberty for direct, out-of-pocket expenses incurred by Liberty in providing these services and for Ascent Media Corporation s allocable portion of costs associated with any shared services or personnel. Liberty and Ascent Media Corporation have agreed that they will review cost allocations every six months and adjust such charges, if appropriate.

(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.

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

Trade Receivables

Trade receivables are shown net of an allowance based on historical collection trends and management s judgment regarding the collectability 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, 2007 and 2006 was $8,457,000 and $8,566,000, respectively.

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

	Balance Beginning of Year	Charged (Credited) to Expense	Write-Offs	Acquired and Other Activity	Balance End of Year
			Amounts in thousands		
2007	$ 8,566	900	(1,009)		8,457
2006	$ 6,588	1,664	314		8,566
2005	$ 10,649	(916)	(1,167)	(1,978)	6,588

Concentration of Credit Risk and Significant Customers

For the years ended December 31, 2007, 2006 and 2005, no single customer accounted for more than 10% of combined revenue.

Fair Value of Financial Instruments

Fair values of cash equivalents, current accounts receivable and current accounts payable approximate the carrying amounts because of their short-term nature.

Property and Equipment

Property and equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives of the assets. 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 $63,953,000, $63,812,000 and $70,995,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Goodwill

The Company accounts for its goodwill pursuant to the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). In accordance with SFAS No. 142, goodwill is not amortized, but is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

Other Intangible Assets

In accordance with SFAS No. 142, 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 economic life. 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 revenue 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 (loss).

Revenue Recognition

Revenue from post-production services to customers producing television programs, feature films and commercial advertising is recognized when services are provided, based on contracted hourly rates. Revenue from system integration services is recognized on the basis of the estimated percentage of completion of individual contracts. Percentage of completion is calculated based upon actual labor and equipment costs incurred compared to total forecasted costs for the contract. Estimated losses on long-term service contracts are recognized in the period in which a loss becomes evident. Revenue from content distribution contracts, which may include multiple elements, is recognized ratably over the term of the contract as services are provided. Under such contracts, any services which are not performed ratably are not material to the contract as a whole.

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 prescribes 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 combined 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. 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.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In instances where the Company has taken or expects to take a tax position in its

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

tax return and the Company believes it is more likely than not that such tax position will be upheld by the relevant taxing authority, the Company records the benefits of such tax position in its combined financial statements.

Advertising Costs

Advertising costs generally are expensed as incurred. Advertising expense aggregated $4,378,000, $3,851,000 and $3,269,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Stock-Based Compensation

Certain employees of AMG hold stock options to purchase shares of Liberty common stock. The Company accounts for stock option awards pursuant to Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (Statement 123R). 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). The Company records stock-based compensation for all stock incentive awards, stock appreciation rights (SARs) and stock options held by AMG s and its subsidiaries employees pursuant to Statement 123R.

Prior to the adoption of Statement 123R, the Company applied the intrinsic-value-based method of accounting prescribed by APB Opinion No. 25, to account for its fixed-plan stock options. Under this method, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price and was recognized on a straight-line basis over the vesting period.

The following table illustrates the effect on net earnings as if the fair-value-based method of Statement 123R had been applied to all outstanding and unvested awards. Compensation expense for SARs was the same under APB Opinion No. 25 and Statement 123R. Accordingly, no pro forma adjustment for such awards is included in the following table (amounts in thousands, except per share amounts).

	Year Ended December 31, 2005	
Net earnings, as reported	$	8,970
Add:		
Stock-based employee compensation expense included in reported net earnings, net of taxes		2,061
Deduct:		
Stock-based employee compensation expense determined under fair value based method for all awards, net of taxes		(7,780)
Pro forma net earnings	$	3,251
Unaudited pro forma basic and diluted net earnings per common share:		
As reported	$	0.64

Pro forma for fair value stock compensation	$	0.23

Unaudited Pro Forma Earnings (Loss) Per Common Share Series A and Series B

Unaudited pro forma 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 14,051,481 shares, which is the number of shares that would have been issued on December 31, 2007 if the AMC Spin-Off had been completed on such date. Dilutive EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

presented. On the effective date of the AMC Spin-Off, AMC stock options will be granted to a certain officer and director of DHC. The number of stock options is not estimable at this time since the calculation is partially dependent upon the trading price of DHC and AMC common stock on days prior to and after the AMC Spin-Off, but the options are not expected to have a significant dilutive impact on pro forma EPS as reported in the accompanying combined statements of operations.

Estimates

The preparation of the combined financial statements in conformity with generally accepted accounting principles in the United States of America (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 combined 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 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (R), *Business Combinations* (SFAS No. 141 (R)). The statement will significantly change the accounting for business combinations, and under this statement, an acquiring entity will be required to recognize the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141 (R) will change the accounting treatment for certain specific items, including acquisition costs, noncontrolling interests, acquired contingent liabilities, in-process research and development, restructuring costs and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date. The adoption of the requirements of SFAS No. 141 (R) applies prospectively to business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. Early adoption is prohibited.

(4) Supplemental Disclosure of Cash Flow Information

	Years Ended December 31,		
	2007	**2006**	**2005**
	Amounts in thousands		
Cash paid for acquisition:			
Fair value of assets acquired	$	48,264	
Net liabilities assumed		(1,471)	
Cash paid for acquisition, net of cash acquired	$	46,793	
Cash paid during the year for income taxes	$ 1,321	1,839	1,172
Non-cash investing and financing activity:			
Capital lease	$ 5,774		

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

(5) Property and Equipment

Property and equipment at December 31, 2007 and 2006 consist of the following:

	2007	2006
	Amounts in thousands	
Property and equipment, net:		
Land	$ 42,525	42,336
Buildings	204,135	196,119
Equipment	220,818	177,486
	467,478	415,941
Accumulated depreciation	(202,355)	(140,573)
	$ 265,123	275,368

(6) Goodwill and Other Intangible Assets

The following table provides the activity and balances of goodwill:

	Creative Services Group	Network Services Group	Total
	Amounts in thousands		
Balance at January 1, 2006	$ 188,583	162,517	351,100
Acquisition of AccentHealth		32,224	32,224
Goodwill impairment	(93,402)		(93,402)
Foreign exchange and other	(112)	2,449	2,337
Balance at December 31, 2006	95,069	197,190	292,259
Goodwill impairment		(165,347)	(165,347)
Foreign exchange and other		381	381
Balance at December 31, 2007	$ 95,069	32,224	127,293

In connection with its 2007 annual evaluation of the recoverability of its goodwill, the Company estimated the value of its reporting units using a discounted cash flow analysis. The result of this valuation indicated that the fair value of the network services reporting unit was less than its carrying value. The network services reporting unit fair value was then used to calculate an implied value of the goodwill related to this reporting unit. The $165,347,000 excess of the carrying amount of the network services goodwill over its implied value was recorded as an impairment charge in the fourth quarter of 2007. The impairment charge is the result of lower future expectations for network services operating cash flow due to a continued decline in operating cash flow margins as a percent of revenue, resulting from competitive conditions in the entertainment and media services industries and increasingly complex customer requirements that are expected to continue for the foreseeable future.

On August 18, 2006, Ascent Media announced that it intended to streamline its structure into two global operating divisions creative services group and network services group to better align Ascent Media s organization with the Company s strategic goals and to respond to changes within the industry driven by technology and customer requirements. The operations of the former media management services group were realigned with the other two groups and the realignment was completed in the fourth quarter of 2006. As a result of the restructuring and the declining revenue and operating cash flow performance of the former media management services group, including ongoing operating losses, this group was tested for goodwill impairment in the third quarter of 2006, prior to the Company s annual goodwill valuation assessment. The Company estimated the fair value of that reporting unit principally by using trading multiples of revenue and operating cash flows of similar

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

companies in the industry. In September 2006, Ascent Media recognized a goodwill impairment loss for the former media management services group of $93,402,000, which represents the excess of the carrying value over the implied fair value of such goodwill.

Included in other assets at December 31, 2007 are amortizable intangibles with a net book value of $4,120,000 and tradename intangibles (which are not subject to amortization) of $5,448,000.

For the years ended December 31, 2007, 2006 and 2005, the Company recorded $1,591,000, $1,494,000 and $1,139,000, respectively, of amortization expense for other intangible assets.

(7) Restructuring Charges

During 2007, 2006 and 2005, the Company completed certain restructuring activities designed to improve operating efficiencies 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 charges of $761,000, $10,832,000 and $3,695,000, respectively. The 2007 restructuring charge related primarily to severance in the creative services group in the United Kingdom. The 2006 restructuring charge related primarily to severance in the Corporate and other group in the United States and United Kingdom and to the closure of facilities in the United Kingdom. The 2005 restructuring charge related primarily to the closure and consolidation of facilities in the United Kingdom.

The following table provides the activity and balances of the restructuring reserve. Such amounts are recorded in other accrued liabilities and other liabilities.

	Opening Balance	Additions	Deductions	Ending Balance
		Amounts in thousands		
Excess facility costs December 31, 2005	$ 2,589	3,695	(2,456)	3,828
Severance		8,645	(2,694)	5,951
Excess facility costs	3,828	2,187	(2,251)	3,764
December 31, 2006	$ 3,828	10,832	(4,945)	9,715
Severance	5,951	761	(5,368)	1,344
Excess facility costs	3,764		(2,142)	1,622
December 31, 2007	$ 9,715	761	(7,510)	2,966

(8) Acquisition

AccentHealth

Effective January 27, 2006, one of AMG s subsidiaries acquired substantially all of the assets of AccentHealth s healthcare media business for cash consideration of $46,793,000. AccentHealth operates an advertising-supported captive audience television network in doctor office waiting rooms nationwide. The Company recorded goodwill of $32,224,000 and other intangible assets of $9,800,000 in connection with this acquisition. Other intangible assets are included in other assets, net on the combined balance sheets. The excess purchase price over the fair value of assets acquired is attributable to the growth potential of AccentHealth and expected compatibility with Ascent Media s existing network services group.

For financial reporting purposes, the acquisition is deemed to have occurred on February 1, 2006, and the results of operations of AccentHealth have been included in AMG s combined results as a part of the network services group since the date of acquisition. On a pro forma basis, the results of operations of AccentHealth are not significant to those of AMG.

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

(9) Income Taxes

The Company s income tax benefit (expense) is as follows:

	Years Ended December 31, 2007	2006	2005
	Amounts in thousands		
Current			
Federal	$ (9,298)	(1,254)	
State	(2,160)	(1,362)	(622)
Foreign	(145)	528	2,164
	(11,603)	(2,088)	1,542
Deferred			
Federal	25,578	4,921	153
State	4,807	10,389	62
Foreign	(349)	(1,154)	(2,609)
	30,036	14,156	(2,394)
Total tax benefit (expense)	$ 18,433	12,068	(852)

Components of pretax income (loss) are as follows:

	Years Ended December 31, 2007	2006	2005
	Amounts in thousands		
Domestic	$ (131,493)	(76,247)	4,617
Foreign	(19,271)	(18,829)	5,205
	$ (150,764)	(95,076)	9,822

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,

	2007	2006	2005
	Amounts in thousands		
Computed expected tax benefit (expense)	$ 52,767	33,277	(3,438)
State and local income taxes, net of federal income taxes	3,394	267	(344)
Change in valuation allowance affecting tax expense	(3,188)	7,663	4,530
Goodwill impairment not deductible for tax purposes	(26,421)	(26,655)	
U.S. taxes on foreign income	(3,055)	776	34
Non-deductible expenses	(809)	(1,951)	(3,407)
Dividend	(1,202)		
Other, net	(3,053)	(1,309)	1,773
Income tax benefit (expense)	$ 18,433	12,068	(852)

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

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

	2007	2006
	Amounts in thousands	
Current assets:		
Accounts receivable reserves	$ 2,976	2,827
Accrued liabilities	12,100	14,236
Net operating loss carryforwards	1,043	5,642
Valuation allowance	(4,149)	(7,141)
	11,970	15,564
Noncurrent assets:		
Net operating loss carryforwards	27,353	19,558
Intangible assets	23,328	
Other	1,073	2,358
Valuation allowance	(13,321)	(6,893)
	38,433	15,023
Total deferred tax assets, net	50,403	30,587
Current liabilities:		
Other	(820)	(2,070)
Noncurrent liabilities:		
Property and equipment	(5,505)	(4,983)
Intangible assets		(9,390)
	(5,505)	(14,373)
Total deferred tax liabilities	(6,325)	(16,443)
Net deferred tax asset	$ 44,078	14,144

The Company s deferred tax assets and liabilities are reported in the accompanying combined balance sheets as follows:

	December 31,	
	2007	2006
	Amounts in thousands	

Current deferred tax assets, net	$ 11,150	13,494
Long-term deferred tax assets, net	32,928	650
Net deferred tax assets	$ 44,078	14,144

At December 31, 2007, the Company has $254,486,000 and $45,870,000 in net operating loss carryforwards for state and foreign tax purposes, respectively. The state net operating losses expire at various times from 2011 through 2021, and the foreign net operating losses may be carried forward indefinitely. The Company has $1,667,000 of state income tax credits, of which $1,554,000 will expire at various times from 2008 through 2011.

For tax years prior to the AMC Spin-Off, the Company has been included in the consolidated tax returns of DHC. For tax years prior to the 2005 Spin Off, the Company was included in the consolidated tax return of Liberty. The tax provisions included in the historical financial statements of the Company for these periods were prepared on a separate return basis. To the extent DHC or Liberty used net operating losses and capital losses (collectively, NOLs) generated by the Company, such usage was reflected as a dividend from the Company to Liberty or DHC.

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

As required by federal and state tax regulations, a portion of the NOLs will be allocated to the Company at the date of the AMC Spin-Off. These NOLs remain subject to adjustments made by the respective taxing authorities. In the event that the NOLs are adjusted due to IRS or other tax authority audits or settlements, the amount of the NOLs allocated to the Company could be changed. In connection with its adoption of FIN 48, the Company recorded reserves for tax positions related to periods prior to the 2005 Spin Off, which resulted in a reduction of its NOL s for financial reporting purposes. As a result, the amount of the Company s NOL s utilized by DHC while the Company was part of its consolidated income tax return is increased which in turn reduces the amount of NOLs allocated to the Company in the 2005 Spin Off. Accordingly, the Company recorded a current tax payable of $551,000, which affected equity.

If the AMC Spin-Off occurred on December 31, 2007, the Company would be allocated $13,752,000 and $277,272,000 in net operating loss carryforwards for federal and state tax purposes, respectively. During the first quarter of 2008, Liberty reached an agreement with the IRS with respect to certain tax items that related to periods prior to the Company 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 had no expectation that it 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.

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 foreign net operating loss carryforwards and other deferred tax assets. As such, the Company continues to maintain a valuation allowance of $17,470,000. The total valuation allowance increased $3,436,000 during the year ended December 31, 2007 as a result of an increase of $3,188,000, which affected tax expense, foreign exchange rate changes of $318,000 and a decrease of $70,000, which affected goodwill.

Upon adoption of FIN 48 on January 1, 2007, the Company reversed $255,000 of tax liabilities included in its December 31, 2006 combined balance sheet with a corresponding decrease to accumulated deficit.

As of December 31, 2007, the Company s tax reserves related to unrecognized tax benefits for uncertain tax positions were not significant. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease during the year ended December 31, 2008.

When the tax law requires interest to be paid on an underpayment of income taxes, the Company recognizes interest expense from the first period the interest would begin accruing according to the relevant tax law. Such interest expense is included in other income, net in the accompanying combined statements of operations. Any accrual of penalties related to underpayment of income taxes on uncertain tax positions is included in Other income, net in the accompanying combined statements of operations. As of December 31, 2007, accrued interest and penalties related to uncertain tax positions were not significant.

During 2007, 2006 and 2005, the Company provided $3,055,000, ($776,000) and ($34,000), respectively, of U.S. tax expense (benefit) for future repatriation of cash from its Singapore operations pursuant to APB 23. This charge represents all undistributed earnings from Singapore not previously taxed in the United States.

The Company has deficits from its United Kingdom and Mexican operations and therefore does not have any undistributed earnings subject to United States taxation.

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

(10) Long-Term Incentive Compensation

2006 Ascent Media Long-Term Incentive Plan

Effective August 3, 2006, Ascent Media adopted its 2006 Long-Term Incentive Plan (the 2006 Plan). The 2006 Plan provides the terms and conditions for the grant of, and payment with respect to, Phantom Appreciation Rights (PARs) granted to certain officers and other key personnel of Ascent Media. The value of a single PAR (PAR Value) is equal to the positive amount (if any) of (a) the sum of (i) 6% of cumulative free cash flow (as defined in the 2006 Plan) over a period of up to six years, divided by 500,000 plus (ii) the calculated value of Ascent Media, based on a formula set forth in the 2006 Plan, divided by 10,000,000; over (b) a baseline value determined at the time of grant. The 2006 Plan is administered by a committee that consists of two individuals appointed by DHC. Grants are determined by the committee, with the first grant occurring on August 3, 2006. The maximum number of PARs that may be granted under the 2006 Plan is 500,000, and there were 438,500 PARs granted as of December 31, 2007. The PARs vest quarterly over a three year period, and are payable on March 31, 2012 (or, if earlier, on the six-month anniversary of a grantee s termination of employment without cause). Ascent Media records a liability and a charge to expense based on the PAR Value and percent vested at each reporting period.

(11) Other Comprehensive Earnings (Loss)

Accumulated other comprehensive earnings (loss) included in AMG s combined balance sheets and combined statements of parent s investment reflect the aggregate of foreign currency translation adjustments and minimum pension liability adjustments.

The change in the components of accumulated other comprehensive earnings (loss), net of taxes, is summarized as follows:

	Foreign Currency Translation Adjustments	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Earnings (Loss), Net of Taxes
		Amounts in thousands	
Balance at January 1, 2005	$ 7,439	(2,366)	5,073
Other comprehensive loss	(10,600)	710	(9,890)
Balance at December 31, 2005	(3,161)	(1,656)	(4,817)
Other comprehensive earnings	13,448		13,448
Balance at December 31, 2006	10,287	(1,656)	8,631
Other comprehensive earnings	2,543	(461)	2,082

Balance at December 31, 2007	$ 12,830	(2,117)	10,713

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

The components of other comprehensive earnings (loss) are reflected in AMG s combined statements of comprehensive earnings (loss) net of taxes. The following table summarizes the tax effects related to each component of other comprehensive earnings (loss).

	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
	Amounts in thousands		
Year ended December 31, 2007:			
Foreign currency translation adjustments	$ 4,207	(1,664)	2,543
Minimum pension liability adjustment	(763)	302	(461)
Other comprehensive earnings	$ 3,444	(1,362)	2,082
Year ended December 31, 2006:			
Foreign currency translation adjustments	$ 22,246	(8,798)	13,448
Year ended December 31, 2005:			
Foreign currency translation adjustments	$ (17,538)	6,938	(10,600)
Minimum pension liability adjustment	1,175	(465)	710
Other comprehensive earnings	$ (16,363)	6,473	(9,890)

(12) Employee Benefit Plans

Ascent Media offers a 401(k) defined contribution plan covering most of its full-time domestic employees. 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 combined 401(k) plan and pension plan expenses for the years ended December 31, 2007, 2006 and 2005 were $4,862,000, $4,383,000 and $3,881,000, respectively.

Ascent Media offers a Management Incentive Plan (MIP) which provides for annual cash incentive awards based on company and individual performance. Certain executive officers and certain employees with a title of divisional managing director, corporate director or higher are eligible to receive awards under the MIP, as determined by a management incentive plan compensation committee. To the extent an award is earned, it is payable no later than two and one-half months following the end of the applicable plan year. Participants must be employed by Ascent Media through the payment date to be eligible to receive the award. The forecasted award liability is accrued on a monthly basis throughout the plan year. For the years ended December 31, 2007, 2006 and 2005, total MIP expense was $2,650,000, $1,633,000 and $3,915,000, respectively. The MIP liability at December 31, 2007 and 2006 was equivalent to the expense for the respective year.

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

(13) Commitments and Contingencies

Future minimum lease payments under scheduled operating leases, which are primarily for buildings, equipment and real estate, having initial or remaining noncancelable terms in excess of one year are as follows (in thousands):

Year ended December 31:	
2008	$ 26,549
2009	$ 26,290
2010	$ 24,060
2011	$ 20,404
2012	$ 14,944
Thereafter	$ 56,006

Rent expense for noncancelable operating leases for real property and equipment was $23,664,000, $22,451,000 and $22,618,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Various lease arrangements contain options to extend terms and are subject to escalation clauses.

On December 31, 2003, Ascent Media acquired the operations of Sony Electronic s systems integration center business and related assets, which we refer to as SIC. In exchange, Sony received the right to be paid in 2008 an amount equal to 20% of the value of the combined business of Ascent Media s wholly owned subsidiary, AF Associates, Inc. and SIC. The value of 20% of the combined business of AF Associates and SIC is estimated at $6,100,000, which liability is included in other accrued liabilities in the accompanying combined balance sheets. SIC is included in Ascent Media s network services group.

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

Ascent Media provides services, such as satellite uplink, systems integration, origination, and post-production, to Discovery, an affiliate of DHC. Revenue recorded by Ascent Media for these services for the years ended December 31, 2007, 2006 and 2005 aggregated $41,216,000 $33,741,000 and $34,187,000, respectively.

(15) Information About Operating Segments

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. Based on the foregoing criteria, the Company s business units have been aggregated into two reportable segments: the creative services group and the network services group.

The 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. These services are referred to generally in the entertainment industry as post-production services. In addition, the creative services group provides a full complement of facilities and services necessary to optimize, archive, manage and repurpose completed media assets for global distribution via freight, satellite, fiber and the Internet. The network 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 programming providers in North America, Europe and Asia. Additionally, the network services group provides systems integration, design, consulting, engineering and project management services.

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

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 adjusted OIBDA. The Company 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). The Company believes this is an important indicator of the operational strength and performance of its businesses, including the businesses ability to service debt and capital expenditures. In addition, this measure is used by 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, accretion expense on asset retirement obligations and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, adjusted OIBDA 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.

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.

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

	Reportable Segments				
	Creative Services Group	Network Services Group(1)	Total	Other(2)	Combined Total
	Amounts in thousands				
Year ended December 31, 2007					
Revenue from external customers	$ 344,715	286,710	631,425		631,425
Adjusted OIBDA	$ 44,861	49,256	94,117	(22,564)	71,553
Capital expenditures	$ 21,475	19,789	41,264	3,831	45,095
Depreciation and amortization	$ 30,901	28,636	59,537	6,007	65,544
Total assets	$ 341,481	257,679	599,160	231,826	830,986
Year ended December 31, 2006					
Revenue from external customers	$ 337,942	270,211	608,153		608,153
Adjusted OIBDA	$ 44,511	47,005	91,516	(27,292)	64,224
Capital expenditures	$ 24,849	44,331	69,180	6,084	75,264
Depreciation and amortization	$ 36,039	23,055	59,094	6,212	65,306
Total assets	$ 378,694	382,848	761,542	191,377	952,919
Year ended December 31, 2005					
Revenue from external customers	$ 340,062	272,712	612,774		612,774
Adjusted OIBDA	$ 61,229	52,797	114,026	(33,253)	80,773
Capital expenditures	$ 44,474	38,476	82,950	4,871	87,821

Depreciation and amortization	$ 34,872	27,008	61,880	10,254	72,134
Total assets	$ 437,850	323,558	761,408	235,218	996,626

(1) Included in Network Services Group revenue is broadcast services revenue of $158,273,000, $158,151,000 and $149,568,000 and systems integration revenue of $128,437,000, $112,060,000 and $123,144,000 in 2007, 2006 and 2005, respectively.

ASCENT MEDIA GROUP

Notes to Combined Financial Statements (Continued)

(2) Amounts shown in other provide a reconciliation of total reportable segments to the Company s combined total. Included in other is (i) SG&A expenses and capital expenditures incurred at a corporate level and (ii) assets held at a corporate level mainly comprised of cash, investments in marketable securities and deferred income tax assets.

The following table provides a reconciliation of combined segment adjusted OIBDA to earnings (loss) before income taxes.

	Years Ended December 31,		
	2007	2006	2005
	Amounts in thousands		
Combined segment adjusted OIBDA	$ 94,117	91,516	114,026
Corporate selling, general and administrative expenses	(22,564)	(27,292)	(33,253)
Stock-based compensation	(262)	(934)	(3,517)
Restructuring and other charges	(761)	(10,832)	(3,695)
Depreciation and amortization	(65,544)	(65,306)	(72,134)
Impairment of goodwill	(165,347)	(93,402)	
Other, net	9,597	11,174	8,395
Earnings (loss) before income taxes	$ (150,764)	(95,076)	9,822

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

	Years Ended December 31,		
	2007	2006	2005
	Amounts in thousands		
Revenue			
United States	$ 485,805	455,858	443,553
United Kingdom	120,821	129,540	149,928
Other countries	24,799	22,755	19,293
	$ 631,425	608,153	612,774
Property and equipment, net			
United States	$ 173,680	178,645	
United Kingdom	68,548	70,363	
Other countries	22,895	26,360	

	$ 265,123	275,368

Appendix G

FORM OF
DISCOVERY COMMUNICATIONS, INC.
2005 INCENTIVE PLAN

(As Amended and Restated)

ARTICLE I

Purpose and Amendment of Plan

1.1 *Purpose.* The purpose of the Plan is to promote the success of the Company by providing a method whereby (i) eligible employees of the Company and its Subsidiaries and (ii) independent contractors providing services to the Company and its Subsidiaries may be awarded additional remuneration for services rendered and encouraged to invest in capital stock of the Company, thereby increasing their proprietary interest in the Company s businesses, encouraging them to remain in the employ of the Company or its Subsidiaries, and increasing their personal interest in the continued success and progress of the Company and its Subsidiaries. The Plan is also intended to aid in (i) attracting Persons of exceptional ability to become officers and employees of the Company and its Subsidiaries and (ii) inducing independent contractors to agree to provide services to the Company and its Subsidiaries.

1.2 *Amendment and Restatement of Plan.* The Plan is hereby amended and restated as of , 2008 by the Board of the Company.

ARTICLE II

Definitions

2.1 *Certain Defined Terms.* Capitalized terms not defined elsewhere in the Plan shall have the following meanings (whether used in the singular or plural):

Affiliate of the Company means any corporation, partnership or other business association that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the Company.

Agreement means a stock option agreement, stock appreciation rights agreement, restricted shares agreement, stock units agreement, cash award agreement or an agreement evidencing more than one type of Award, specified in Section 11.5, as any such Agreement may be supplemented or amended from time to time.

Approved Transaction means any transaction in which the Board (or, if approval of the Board is not required as a matter of law, the stockholders of the Company) shall approve (i) any consolidation or merger of the Company, or binding share exchange, pursuant to which shares of Common Stock of the Company would be changed or converted into or exchanged for cash, securities, or other property, other than any such transaction in which the common stockholders of the Company immediately prior to such transaction have the same proportionate ownership of the Common Stock of, and voting power with respect to, the surviving corporation immediately after such transaction, (ii) any merger, consolidation or binding share exchange to which the Company is a party as a result of which the Persons who are common stockholders of the Company immediately prior thereto have less than a majority of the combined voting power of the outstanding capital stock of the Company ordinarily (and apart from the rights accruing under special circumstances) having the right to vote in the election of directors immediately following such merger, consolidation or binding share exchange, (iii) the adoption of any plan or proposal for the liquidation or dissolution of the Company, or (iv) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company.

Award means a grant of Options, SARs, Restricted Shares, Stock Units, Performance Awards, Cash Awards and/or cash amounts under the Plan.

Board means the Board of Directors of the Company.

Board Change means, during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board cease for any reason to constitute a majority thereof unless the election, or the nomination for election, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

Cash Award means an Award made pursuant to Section 10.1 of the Plan to a Holder that is paid solely on account of the attainment of one or more Performance Objectives that have been preestablished by the Committee.

Code means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute or statutes thereto. Reference to any specific Code section shall include any successor section.

Committee means the Compensation Committee (or another committee) of the Board (or a subcommittee of such committee) appointed pursuant to Section 3.1 to administer the Plan.

Common Stock means each or any (as the context may require) series of the Company s common stock.

Company means Discovery Communications, Inc. (as a successor to Discovery Holding Company), a Delaware corporation.

Control Purchase means any transaction (or series of related transactions) in which (i) any person (as such term is defined in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), corporation or other entity (other than the Company, any Subsidiary of the Company or any employee benefit plan sponsored by the Company or any Subsidiary of the Company) shall purchase any Common Stock of the Company (or securities convertible into Common Stock of the Company) for cash, securities or any other consideration pursuant to a tender offer or exchange offer, without the prior consent of the Board, or (ii) any person (as such term is so defined), corporation or other entity (other than the Company, any Subsidiary of the Company, any employee benefit plan sponsored by the Company or any Subsidiary of the Company or any Exempt Person (as defined below)) shall become the beneficial owner (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the then outstanding securities of the Company ordinarily (and apart from the rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Rule 13d-3(d) under the Exchange Act in the case of rights to acquire the Company s securities), other than in a transaction (or series of related transactions) approved by the Board. For purposes of this definition, Exempt Person means each of (a) the Chairman of the Board, the President and each of the directors of Discovery Holding Company as of the Distribution Date, and (b) the respective family members, estates and heirs of each of the persons referred to in clause (a) above and any trust or other investment vehicle for the primary benefit of any of such persons or their respective family members or heirs. As used with respect to any person, the term family member means the spouse, siblings and lineal descendants of such person.

Disability means the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

Distribution Date means the date on which Discovery Holding Company ceased to be a wholly-owned subsidiary of Liberty Media Corporation, a Delaware corporation.

Dividend Equivalents means, with respect to Restricted Shares to be issued at the end of the Restriction Period, to the extent specified by the Committee only, an amount equal to all dividends and other distributions (or the economic equivalent thereof) which are payable to stockholders of record during the Restriction Period on a like number and kind of shares of Common Stock.

Domestic Relations Order means a domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

Effective Date means May 3, 2005, the date on which the Plan originally became effective.

Equity Security shall have the meaning ascribed to such term in Section 3(a)(11) of the Exchange Act, and an equity security of an issuer shall have the meaning ascribed thereto in Rule 16a-1 promulgated under the Exchange Act, or any successor Rule.

Exchange Act means the Securities Exchange Act of 1934, as amended from time to time, or any successor statute or statutes thereto. Reference to any specific Exchange Act section shall include any successor section.

Fair Market Value of a share of any series of Common Stock on any day means the last sale price (or, if no last sale price is reported, the average of the high bid and low asked prices) for a share of such series of Common Stock on such day (or, if such day is not a trading day, on the next preceding trading day) as reported on the consolidated transaction reporting system for the principal national securities exchange on which shares of such series of Common Stock are listed on such day, or the Committee can, in its sole discretion, use averages or weighted averages either on a daily basis or such longer period as complies with Code Section 409A. If for any day the Fair Market Value of a share of the applicable series of Common Stock is not determinable by any of the foregoing means, then the Fair Market Value for such day shall be determined in good faith by the Committee on the basis of such quotations and other considerations as the Committee deems appropriate.

Free Standing SAR has the meaning ascribed thereto in Section 7.1.

Holder means a person who has received an Award under the Plan.

Nonqualified Stock Option means a stock option granted under Article VI.

Option means a Nonqualified Stock Option.

Performance Award means an Award made pursuant to Article X of the Plan to a Holder that is subject to the attainment of one or more Performance Objectives.

Performance Objective means a standard established by the Committee to determine in whole or in part whether a Performance Award shall be earned.

Person means an individual, corporation, limited liability company, partnership, trust, incorporated or unincorporated association, joint venture or other entity of any kind.

Plan means this Discovery Communications, Inc. 2005 Incentive Plan (As Amended and Restated).

Restricted Shares means shares of any series of Common Stock or the right to receive shares of any specified series of Common Stock, as the case may be, awarded pursuant to Article VIII.

Restriction Period means a period of time beginning on the date of each Award of Restricted Shares and ending on the Vesting Date with respect to such Award.

Retained Distribution has the meaning ascribed thereto in Section 8.3.

SARs means stock appreciation rights, awarded pursuant to Article VII, with respect to shares of any specified series of Common Stock.

Stock Unit Awards has the meaning ascribed thereto in Section 9.1.

Subsidiary of a Person means any present or future subsidiary (as defined in Section 424(f) of the Code) of such Person or any business entity in which such Person owns, directly or indirectly, 50% or more of the voting, capital or profits interests. An entity shall be deemed a subsidiary of a Person for purposes of this definition only for such periods as the requisite ownership or control relationship is maintained.

Tandem SARs has the meaning ascribed thereto in Section 7.1.

Vesting Date, with respect to any Restricted Shares awarded hereunder, means the date on which such Restricted Shares cease to be subject to a risk of forfeiture, as designated in or determined in accordance with the Agreement with respect to such Award of Restricted Shares pursuant to Article VIII. If more than one Vesting Date is designated for an Award of Restricted Shares, reference in the Plan to a Vesting Date in respect of such Award shall be deemed to refer to each part of such Award and the Vesting Date for such part.

ARTICLE III

Administration

3.1 *Committee.* The Plan shall be administered by the Committee. The Committee shall be comprised of not less than two Persons. The Board or committee of the Board may from time to time appoint members of the Committee in substitution for or in addition to members previously appointed, may fill vacancies in the Committee and may remove members of the Committee. The Committee shall select one of its members as its chairman and shall hold its meetings at such times and places as it shall deem advisable. A majority of its members shall constitute a quorum and all determinations shall be made by a majority of such quorum. Any determination reduced to writing and signed by all of the members shall be as fully effective as if it had been made by a majority vote at a meeting duly called and held.

3.2 *Powers.* The Committee shall have full power and authority to grant to eligible persons Options under Article VI of the Plan, SARs under Article VII of the Plan, Restricted Shares under Article VIII of the Plan, Stock Units under Article IX of the Plan, Cash Awards under Article X of the Plan and/or Performance Awards under Article X of the Plan, to determine the terms and conditions (which need not be identical) of all Awards so granted, to interpret the provisions of the Plan and any Agreements relating to Awards granted under the Plan and to supervise the administration of the Plan. The Committee in making an Award may provide for the granting or issuance of additional, replacement or alternative Awards upon the occurrence of specified events, including the exercise of the original Award. The Committee shall have sole authority in the selection of persons to whom Awards may be granted under the Plan and in the determination of the timing, pricing and amount of any such Award, subject only to the express provisions of the Plan. In making determinations hereunder, the Committee may take into account the nature of the services rendered by the respective employees and independent contractors, their present and potential contributions to the success of the Company and its Subsidiaries, and such other factors as the Committee in its discretion deems relevant.

3.3 *Interpretation.* The Committee is authorized, subject to the provisions of the Plan, to establish, amend and rescind such rules and regulations as it deems necessary or advisable for the proper administration of the Plan and to take such other action in connection with or in relation to the Plan as it deems necessary or advisable. Each action and determination made or taken pursuant to the Plan by the Committee, including any interpretation or construction of the Plan, shall be final and conclusive for all purposes and upon all persons. No member of the Committee shall be liable for any action or determination made or taken by him or the Committee in good faith with respect to the Plan.

ARTICLE IV

Shares Subject to the Plan

4.1 *Number of Shares; Award Limits.* Subject to the provisions of this Article IV, the maximum number of shares of Common Stock with respect to which Awards may be granted during the term of the Plan shall be 42 million shares. Shares of Common Stock will be made available from the authorized but unissued shares of the Company or from shares reacquired by the Company, including shares purchased in the open market. The shares of Common Stock subject to (i) any Award granted under the Plan that shall expire, terminate or be annulled for any reason without having been exercised (or considered to have been exercised as provided in Section 7.2), (ii) any Award of any SARs granted under the Plan that shall be exercised for cash, and (iii) any Award of Restricted Shares or Stock Units that shall be forfeited prior to becoming vested (provided that the Holder received no benefits of ownership of such Restricted Shares or Stock Units other than voting rights and the accumulation of Retained Distributions and unpaid Dividend Equivalents that are likewise forfeited) shall again be available for purposes of the Plan. Except for Awards described in Section 11.1, no person may be granted in any calendar year Awards covering more than 6 million shares of Common Stock (as such amount may be adjusted from time to time as provided in Section 4.2). No person shall receive payment for Cash Awards during any calendar year aggregating in excess of $10,000,000.

4.2 *Adjustments.* If the Company subdivides its outstanding shares of any series of Common Stock into a greater number of shares of such series of Common Stock (by stock dividend, stock split, reclassification, or otherwise) or combines its outstanding shares of any series of Common Stock into a smaller number of shares of such series of Common Stock (by reverse stock split, reclassification, or otherwise) or if the Committee determines that any stock dividend, extraordinary cash dividend, reclassification, recapitalization, reorganization, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase such series of Common Stock or other similar corporate event (including mergers or consolidations other than those which constitute Approved Transactions, adjustments with respect to which shall be governed by Section 11.1(b)) affects any series of Common Stock so that an adjustment is required to preserve the benefits or potential benefits intended to be made available under the Plan, then the Committee, in such manner as the Committee, in its sole discretion, deems equitable and appropriate, shall make such adjustments to any or all of (i) the number and kind of shares of stock which thereafter may be awarded, optioned or otherwise made subject to the benefits contemplated by the Plan, (ii) the number and kind of shares of stock subject to outstanding Awards, and (iii) the purchase or exercise price and the relevant appreciation base with respect to any of the foregoing, *provided, however,* that the number of shares subject to any Award shall always be a whole number. Notwithstanding the foregoing, if all shares of any series of Common Stock are redeemed, then each outstanding Award shall be adjusted to substitute for the shares of such series of Common Stock subject thereto the kind and amount of cash, securities or other assets issued or paid in the redemption of the equivalent number of shares of such series of Common Stock and otherwise the terms of such Award, including, in the case of Options or similar rights, the aggregate exercise price, and, in the case of Free Standing SARs, the aggregate base price, shall remain constant before and after the substitution (unless otherwise determined by the Committee and provided in the applicable Agreement). The Committee may, if deemed appropriate, provide for a cash payment to any Holder of an Award in connection with any adjustment made pursuant to this Section 4.2.

ARTICLE V

Eligibility

5.1 *General.* The persons who shall be eligible to participate in the Plan and to receive Awards under the Plan shall, subject to Section 5.2, be such persons who are employees (including officers) of or independent contractors providing services to the Company or its Subsidiaries as the Committee shall select. Awards may be made to employees or independent contractors who hold or have held Awards under the Plan or any similar or other awards under any other plan of the Company or any of its Affiliates.

5.2 *Ineligibility.* No member of the Committee, while serving as such, shall be eligible to receive an Award.

ARTICLE VI

Stock Options

6.1 *Grant of Options.* Subject to the limitations of the Plan, the Committee shall designate from time to time those eligible persons to be granted Options, the time when each Option shall be granted to such eligible persons, the series and number of shares of Common Stock subject to such Option, and, subject to Section 6.2, the purchase price of the shares of Common Stock subject to such Option.

6.2 *Option Price.* The price at which shares may be purchased upon exercise of an Option shall be fixed by the Committee and may be no less than the Fair Market Value of the shares of the applicable series of Common Stock subject to the Option as of the date the Option is granted.

6.3 *Term of Options.* Subject to the provisions of the Plan with respect to death, retirement and termination of employment, the term of each Option shall be for such period as the Committee shall determine as set forth in the applicable Agreement.

6.4 *Exercise of Options.* An Option granted under the Plan shall become (and remain) exercisable during the term of the Option to the extent provided in the applicable Agreement and the Plan and, unless the Agreement otherwise provides, may be exercised to the extent exercisable, in whole or in part, at any time and from time to time during such term; *provided, however,* that subsequent to the grant of an Option, the Committee, at any time before complete termination of such Option, may accelerate the time or times at which such Option may be exercised in whole or in part (without reducing the term of such Option).

6.5 *Manner of Exercise.*

(a) *Form of Payment.* An Option shall be exercised by written notice to the Company upon such terms and conditions as the Agreement may provide and in accordance with such other procedures for the exercise of Options as the Committee may establish from time to time. The method or methods of payment of the purchase price for the shares to be purchased upon exercise of an Option and of any amounts required by Section 11.9 shall be determined by the Committee and may consist of (i) cash, (ii) check, (iii) promissory note (subject to applicable law), (iv) whole shares of any series of Common Stock, (v) the withholding of shares of the applicable series of Common Stock issuable upon such exercise of the Option, (vi) the delivery, together with a properly executed exercise notice, of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the purchase price, or (vii) any combination of the foregoing methods of payment, or such other consideration and method of payment as may be permitted for the issuance of shares under the Delaware General Corporation Law. The permitted method or methods of payment of the amounts payable upon exercise of an Option, if other than in cash, shall be set forth in the applicable Agreement and may be subject to such conditions as the Committee deems appropriate.

(b) *Value of Shares.* Unless otherwise determined by the Committee and provided in the applicable Agreement, shares of any series of Common Stock delivered in payment of all or any part of the amounts payable in connection with the exercise of an Option, and shares of any series of Common Stock withheld for such payment, shall be valued for such purpose at their Fair Market Value as of the exercise date.

(c) *Issuance of Shares.* The Company shall effect the transfer of the shares of Common Stock purchased under the Option as soon as practicable after the exercise thereof and payment in full of the purchase price therefor and of any amounts required by Section 11.9, and within a reasonable time thereafter, such transfer shall be evidenced on the books of the Company. Unless otherwise determined by the Committee and provided in the applicable Agreement, (i) no Holder or other person exercising an Option shall have any of the rights of a stockholder of the Company with respect to shares of Common Stock subject to an Option granted under the Plan until due exercise and full payment has been made, and (ii) no adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of such due exercise and full payment.

6.6 *Nontransferability.* Unless otherwise determined by the Committee and provided in the applicable Agreement, Options shall not be transferable other than by will or the laws of descent and distribution or pursuant to a Domestic Relations Order, and, except as otherwise required pursuant to a Domestic Relations Order, Options may be exercised during the lifetime of the Holder thereof only by such Holder (or his or her court-appointed legal representative).

ARTICLE VII

SARs

7.1 *Grant of SARs.* Subject to the limitations of the Plan, SARs may be granted by the Committee to such eligible persons in such numbers, with respect to any specified series of Common Stock, and at such times during the term of the Plan as the Committee shall determine. A SAR may be granted to a Holder of an Option (hereinafter called a related Option) with respect to all or a portion of the shares of Common Stock subject to the related Option (a Tandem SAR) or may be granted separately to an eligible employee (a Free Standing SAR). Subject to the limitations of the Plan, SARs shall be exercisable in whole or in part upon notice to the Company upon such terms and conditions as are provided in the Agreement.

7.2 *Tandem SARs.* A Tandem SAR may be granted either concurrently with the grant of the related Option or at any time thereafter prior to the complete exercise, termination, expiration or cancellation of such related Option. Tandem

SARs shall be exercisable only at the time and to the extent that the related Option is exercisable (and may be subject to such additional limitations on exercisability as the Agreement may provide) and in no event after the complete termination or full exercise of the related Option. Upon the exercise or termination of the related Option, the Tandem SARs with respect thereto shall be canceled automatically to the extent of the number of shares of Common Stock with respect to which the related Option was so exercised or terminated. Subject to the limitations of the Plan, upon the exercise of a Tandem SAR and unless otherwise determined by the Committee and provided in the applicable Agreement, (i) the Holder thereof shall be entitled to receive from the Company, for each share of the applicable series of Common Stock with respect to which the Tandem SAR is being exercised, consideration (in the form determined as provided in Section 7.4) equal in value to the excess of the Fair Market Value of a share of the applicable series of Common Stock with respect to which the Tandem SAR was granted on the date of exercise over the related Option purchase price per share, and (ii) the related Option with respect thereto shall be canceled automatically to the extent of the number of shares of Common Stock with respect to which the Tandem SAR was so exercised.

7.3 *Free Standing SARs.* Free Standing SARs shall be exercisable at the time, to the extent and upon the terms and conditions set forth in the applicable Agreement. The base price of a Free Standing SAR may be no less than the Fair Market Value of the applicable series of Common Stock with respect to which the Free Standing SAR was granted as of the date the Free Standing SAR is granted. Subject to the limitations of the Plan, upon the exercise of a Free Standing SAR and unless otherwise determined by the Committee and provided in the applicable Agreement, the Holder thereof shall be entitled to receive from the Company, for each share of the applicable series of Common Stock with respect to which the Free Standing SAR is being exercised, consideration (in the form determined as provided in Section 7.4) equal in value to the excess of the Fair Market Value of a share of the applicable series of Common Stock with respect to which the Free Standing SAR was granted on the date of exercise over the base price per share of such Free Standing SAR.

7.4 *Consideration.* The consideration to be received upon the exercise of a SAR by the Holder shall be paid in the applicable series of Common Stock with respect to which the SAR was granted (valued at Fair Market Value on the date of exercise of such SAR) or cash equivalent thereto, as determined by the Committee and provided in the applicable Agreement. No fractional shares of Common Stock shall be issuable upon exercise of a SAR, and unless otherwise provided in the applicable Agreement, the Holder will receive cash in lieu of fractional shares. Unless the Committee shall otherwise determine, to the extent a Free Standing SAR is exercisable, it will be exercised automatically on its expiration date.

7.5 *Limitations.* The applicable Agreement may provide for a limit on the amount payable to a Holder upon exercise of SARs at any time or in the aggregate, for a limit on the time periods during which a Holder may exercise SARs, and for such other limits on the rights of the Holder and such other terms and conditions of the SAR, including a condition that the SAR may be exercised only in accordance with rules and regulations adopted from time to time, as the Committee may determine. Unless otherwise so provided in the applicable Agreement, any such limit relating to a Tandem SAR shall not restrict the exercisability of the related Option. Such rules and regulations may govern the right to exercise SARs granted prior to the adoption or amendment of such rules and regulations as well as SARs granted thereafter.

7.6 *Exercise.* For purposes of this Article VII, the date of exercise of a SAR shall mean the date on which the Company shall have received notice from the Holder of the SAR of the exercise of such SAR (unless otherwise determined by the Committee and provided in the applicable Agreement).

7.7 *Nontransferability.* Unless otherwise determined by the Committee and provided in the applicable Agreement, (i) SARs shall not be transferable other than by will or the laws of descent and distribution or pursuant to a Domestic Relations Order, and (ii) except as otherwise required pursuant to a Domestic Relations Order, SARs may be exercised during the lifetime of the Holder thereof only by such Holder (or his or her court-appointed legal representative).

ARTICLE VIII

Restricted Shares

8.1 *Grant.* Subject to the limitations of the Plan, the Committee shall designate those eligible persons to be granted Awards of Restricted Shares, shall determine the time when each such Award shall be granted, shall determine whether shares of Common Stock covered by Awards of Restricted Shares will be issued at the beginning or the end of the Restriction Period and whether Dividend Equivalents will be paid during the Restriction Period in the event shares of the applicable series of Common Stock are to be issued at the end of the Restriction Period, and shall designate (or set forth the basis for determining) the Vesting Date or Vesting Dates for each Award of

Restricted Shares, and may prescribe other restrictions, terms and conditions applicable to the vesting of such Restricted Shares in addition to those provided in the Plan. The Committee shall determine the price, if any, to be paid by the Holder for the Restricted Shares; *provided, however,* that the issuance of Restricted Shares shall be made for at least the minimum consideration necessary to permit such Restricted Shares to be deemed fully paid and nonassessable. All determinations made by the Committee pursuant to this Section 8.1 shall be specified in the Agreement.

8.2 *Issuance of Restricted Shares at Beginning of the Restriction Period.* If shares of the applicable series of Common Stock are issued at the beginning of the Restriction Period, the stock certificate or certificates representing such Restricted Shares shall be registered in the name of the Holder to whom such Restricted Shares shall have been awarded. During the Restriction Period, certificates representing the Restricted Shares and any securities constituting Retained Distributions shall bear a restrictive legend to the effect that ownership of the Restricted Shares (and such Retained Distributions), and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms and conditions provided in the Plan and the applicable Agreement. Such certificates shall remain in the custody of the Company or its designee, and the Holder shall deposit with the custodian stock powers or other instruments of assignment, each endorsed in blank, so as to permit retransfer to the Company of all or any portion of the Restricted Shares and any securities constituting Retained Distributions that shall be forfeited or otherwise not become vested in accordance with the Plan and the applicable Agreement.

8.3 *Restrictions.* Restricted Shares issued at the beginning of the Restriction Period shall constitute issued and outstanding shares of the applicable series of Common Stock for all corporate purposes. The Holder will have the right to vote such Restricted Shares, to receive and retain such dividends and distributions, as the Committee may designate, paid or distributed on such Restricted Shares, and to exercise all other rights, powers and privileges of a Holder of shares of the applicable series of Common Stock with respect to such Restricted Shares; *except, that*, unless otherwise determined by the Committee and provided in the applicable Agreement, (i) the Holder will not be entitled to delivery of the stock certificate or certificates representing such Restricted Shares until the Restriction Period shall have expired and unless all other vesting requirements with respect thereto shall have been fulfilled or waived; (ii) the Company or its designee will retain custody of the stock certificate or certificates representing the Restricted Shares during the Restriction Period as provided in Section 8.2; (iii) other than such dividends and distributions as the Committee may designate, the Company or its designee will retain custody of all distributions (Retained Distributions) made or declared with respect to the Restricted Shares (and such Retained Distributions will be subject to the same restrictions, terms and vesting, and other conditions as are applicable to the Restricted Shares) until such time, if ever, as the Restricted Shares with respect to which such Retained Distributions shall have been made, paid or declared shall have become vested, and such Retained Distributions shall not bear interest or be segregated in a separate account; (iv) the Holder may not sell, assign, transfer, pledge, exchange, encumber or dispose of the Restricted Shares or any Retained Distributions or his interest in any of them during the Restriction Period; and (v) a breach of any restrictions, terms or conditions provided in the Plan or established by the Committee with respect to any Restricted Shares or Retained Distributions will cause a forfeiture of such Restricted Shares and any Retained Distributions with respect thereto.

8.4 *Issuance of Stock at End of the Restriction Period.* Restricted Shares issued at the end of the Restriction Period shall not constitute issued and outstanding shares of the applicable series of Common Stock, and the Holder shall not have any of the rights of a stockholder with respect to the shares of Common Stock covered by such an Award of Restricted Shares, in each case until such shares shall have been transferred to the Holder at the end of the Restriction Period. If and to the extent that shares of Common Stock are to be issued at the end of the Restriction Period, the Holder shall be entitled to receive Dividend Equivalents with respect to the shares of Common Stock covered thereby either (i) during the Restriction Period or (ii) in accordance with the rules applicable to Retained Distributions, as the Committee may specify in the Agreement.

8.5 *Cash Payments.* In connection with any Award of Restricted Shares, an Agreement may provide for the payment of a cash amount to the Holder of such Restricted Shares after such Restricted Shares shall have become vested. Such cash amounts shall be payable in accordance with such additional restrictions, terms and conditions as shall be prescribed by the Committee in the Agreement and shall be in addition to any other salary, incentive, bonus or other compensation payments which such Holder shall be otherwise entitled or eligible to receive from the Company.

8.6 *Completion of Restriction Period.* On the Vesting Date with respect to each Award of Restricted Shares and the satisfaction of any other applicable restrictions, terms and conditions, (i) all or the applicable portion of such Restricted Shares shall become vested, (ii) any Retained Distributions and any unpaid Dividend Equivalents with respect to such Restricted Shares shall become vested to the extent that the Restricted Shares related thereto shall have become vested, and (iii) any cash amount to be received by the Holder with respect to such Restricted Shares shall become payable, all in accordance with the terms of the applicable Agreement. Any such Restricted Shares, Retained Distributions and any unpaid Dividend Equivalents that shall not become vested shall be forfeited to the Company, and the Holder shall not thereafter have any rights (including dividend and voting rights) with respect to such Restricted Shares, Retained Distributions and any unpaid Dividend Equivalents that shall have been so forfeited. The Committee may, in its discretion, provide that the delivery of any Restricted Shares, Retained Distributions and unpaid Dividend Equivalents that shall have become vested, and payment of any related cash amounts that shall have become payable under this Article VIII, shall be deferred until such date or dates as the recipient may elect. Any election of a recipient pursuant to the preceding sentence shall be filed in writing with the Committee in accordance with such rules and regulations, including any deadline for the making of such an election, as the Committee may provide, and shall be made in compliance with Section 409A of the Code.

ARTICLE IX

Stock Units

9.1 *Grant.* In addition to granting Awards of Options, SARs and Restricted Shares, the Committee shall, subject to the limitations of the Plan, have authority to grant to eligible persons Awards of Stock Units which may be in the form of shares of any specified series of Common Stock or units, the value of which is based, in whole or in part, on the Fair Market Value of the shares of any specified series of Common Stock. Subject to the provisions of the Plan, including any rules established pursuant to Section 9.2, Awards of Stock Units shall be subject to such terms, restrictions, conditions, vesting requirements and payment rules as the Committee may determine in its discretion, which need not be identical for each Award. The determinations made by the Committee pursuant to this Section 9.1 shall be specified in the applicable Agreement.

9.2 *Rules.* The Committee may, in its discretion, establish any or all of the following rules for application to an Award of Stock Units:

(a) Any shares of Common Stock which are part of an Award of Stock Units may not be assigned, sold, transferred, pledged or otherwise encumbered prior to the date on which the shares are issued or, if later, the date provided by the Committee at the time of the Award.

(b) Such Awards may provide for the payment of cash consideration by the person to whom such Award is granted or provide that the Award, and any shares of Common Stock to be issued in connection therewith, if applicable, shall be delivered without the payment of cash consideration; *provided, however,* that the issuance of any shares of Common Stock in connection with an Award of Stock Units shall be for at least the minimum consideration necessary to permit such shares to be deemed fully paid and nonassessable.

(c) Awards of Stock Units may provide for deferred payment schedules, vesting over a specified period of employment, the payment (on a current or deferred basis) of dividend equivalent amounts with respect to the number of shares of Common Stock covered by the Award, and elections by the employee to defer payment of the Award or the lifting of restrictions on the Award, if any, provided that any such deferrals shall comply with the requirements of Section 409A of the Code.

(d) In such circumstances as the Committee may deem advisable, the Committee may waive or otherwise remove, in whole or in part, any restrictions or limitations to which a Stock Unit Award was made subject at the time of grant.

ARTICLE X

Cash Awards and Performance Awards

10.1 *Cash Awards.* In addition to granting Options, SARs, Restricted Shares and Stock Units, the Committee shall, subject to the limitations of the Plan, have authority to grant to eligible persons Cash Awards. Each Cash Award shall be subject to such terms and conditions, restrictions and contingencies as the Committee shall determine. Restrictions and contingencies limiting the right to receive a cash payment pursuant to a Cash Award shall be based upon the achievement of single or multiple Performance Objectives over a performance period established by the Committee. The determinations made by the Committee pursuant to this Section 10.1 shall be specified in the applicable Agreement.

10.2 *Designation as a Performance Award.* The Committee shall have the right to designate any Award of Options, SARs, Restricted Shares or Stock Units as a Performance Award. All Cash Awards shall be designated as Performance Awards.

10.3 *Performance Objectives.* The grant or vesting of a Performance Award shall be subject to the achievement of Performance Objectives over a performance period established by the Committee based upon one or more of the following business criteria that apply to the Holder, one or more business units, divisions or Subsidiaries of the Company or the applicable sector of the Company, or the Company as a whole, and if so desired by the Committee, by comparison with a peer group of companies: increased revenue; net income measures (including income after capital costs and income before or after taxes); stock price measures (including growth measures and total stockholder return); price per share of Common Stock; market share; audience metrics (such as program ratings, web impressions, and subscribers); earnings per share (actual or targeted growth); earnings before interest, taxes, depreciation, and amortization (EBITDA); economic value added (or an equivalent metric); market value added; debt to equity ratio; cash flow measures (including cash flow return on capital, cash flow return on tangible capital, net cash flow and net cash flow before financing activities); return measures (including return on equity, return on average assets, return on capital, risk-adjusted return on capital, return on investors capital and return on average equity); operating measures (including operating income, adjusted operating income before depreciation and amortization, funds from operations, cash from operations, after-tax operating income; sales volumes, production volumes and production efficiency); expense measures (including overhead cost and general and administrative expense); margins; stockholder value; total stockholder return; proceeds from dispositions; total market value and corporate values measures (including ethics compliance, environmental and safety). Unless otherwise stated, such a Performance Objective need not be based upon an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria). The Committee shall have the authority to determine whether the Performance Objectives and other terms and conditions of the Award are satisfied, and the Committee s determination as to the achievement of Performance Objectives relating to a Performance Award shall be made in writing.

10.4 *Section 162(m) of the Code.* Notwithstanding the foregoing provisions, if the Committee intends for a Performance Award to be granted and administered in a manner designed to preserve the deductibility of the compensation resulting from such Award in accordance with Section 162(m) of the Code, then the Performance Objectives for such particular Performance Award relative to the particular period of service to which the Performance Objectives relate shall be established by the Committee in writing (i) no later than 90 days after the beginning of such period and (ii) prior to the completion of 25% of such period.

10.5 *Waiver of Performance Objectives.* The Committee shall have no discretion to modify or waive the Performance Objectives or conditions to the grant or vesting of a Performance Award unless such Award is not intended to qualify as qualified performance-based compensation under Section 162(m) of the Code and the relevant Agreement provides for such discretion.

ARTICLE XI

General Provisions

11.1 *Acceleration of Awards.*

(a) *Death or Disability.* If a Holder s employment shall terminate by reason of death or Disability, notwithstanding any contrary waiting period, installment period, vesting schedule or Restriction Period in any Agreement or in the Plan, unless the applicable Agreement provides otherwise: (i) in the case of an Option or SAR, each outstanding Option or SAR granted under the Plan shall immediately become exercisable in full in respect of the aggregate number of shares covered thereby; (ii) in the case of Restricted Shares, the Restriction Period applicable to each such Award of Restricted Shares shall be deemed to have expired and all such Restricted Shares, any related Retained Distributions and any unpaid Dividend Equivalents shall become vested and any related cash amounts payable pursuant to the applicable Agreement shall be adjusted in such manner as may be provided in the Agreement; and (iii) in the case of Stock Units, each such Award of Stock Units shall become vested in full.

(b) *Approved Transactions; Board Change; Control Purchase.* In the event of any Approved Transaction, Board Change or Control Purchase, notwithstanding any contrary waiting period, installment period, vesting schedule or Restriction Period in any Agreement or in the Plan, unless the applicable Agreement provides otherwise: (i) in the case of an Option or SAR, each such outstanding Option or SAR granted under the Plan shall become exercisable in full in respect of the aggregate number of shares covered thereby; (ii) in the case of Restricted Shares, the Restriction Period applicable to each such Award of Restricted Shares shall be deemed to have expired and all such Restricted Shares, any related Retained Distributions and any unpaid Dividend Equivalents shall become vested and any related cash amounts payable pursuant to the applicable Agreement shall be adjusted in such manner as may be provided in the Agreement; and (iii) in the case of Stock Units, each such Award of Stock Units shall become vested in full, in each case effective upon the Board Change or Control Purchase or immediately prior to consummation of the Approved Transaction. The effect, if any, on a Cash Award of an Approved Transaction, Board Change or Control Purchase shall be prescribed in the applicable Agreement. Notwithstanding the foregoing, unless otherwise provided in the applicable Agreement, the Committee may, in its discretion, determine that any or all outstanding Awards of any or all types granted pursuant to the Plan will not vest or become exercisable on an accelerated basis in connection with an Approved Transaction if effective provision has been made for the taking of such action which, in the opinion of the Committee, is equitable and appropriate to substitute a new Award for such Award or to assume such Award and to make such new or assumed Award, as nearly as may be practicable, equivalent to the old Award (before giving effect to any acceleration of the vesting or exercisability thereof), taking into account, to the extent applicable, the kind and amount of securities, cash or other assets into or for which the applicable series of Common Stock may be changed, converted or exchanged in connection with the Approved Transaction.

11.2 *Termination of Employment.*

(a) *General.* If a Holder s employment shall terminate prior to an Option or SAR becoming exercisable or being exercised (or deemed exercised, as provided in Section 7.2) in full, or during the Restriction Period with respect to any Restricted Shares or prior to the vesting or complete exercise of any Stock Units, then such Option or SAR shall thereafter become or be exercisable, such Stock Units to the extent vested shall thereafter be exercisable, and the Holder s rights to any unvested Restricted Shares, Retained Distributions, unpaid Dividend Equivalents and related cash amounts and any such unvested Stock Units shall thereafter vest, in each case solely to the extent provided in the applicable Agreement; *provided, however,* that, unless otherwise determined by the Committee and provided in the applicable Agreement, (i) no Option or SAR may be exercised after the scheduled expiration date thereof; (ii) if the Holder s employment terminates by reason of death or Disability, the Option or SAR shall remain exercisable for a period of at least one year following such termination (but not later than the scheduled expiration of such Option or

SAR); and (iii) any termination of the Holder s employment for cause will be treated in accordance with the provisions of Section 11.2(b). The effect on a Cash Award of the termination of a Holder s employment for any reason, other than for cause, shall be prescribed in the applicable Agreement.

(b) *Termination for Cause.* If a Holder s employment with the Company or a Subsidiary of the Company shall be terminated by the Company or such Subsidiary for cause during the Restriction Period with respect to any

Restricted Shares or prior to any Option or SAR becoming exercisable or being exercised in full or prior to the vesting or complete exercise of any Stock Unit or the payment in full of any Cash Award (for these purposes, cause shall have the meaning ascribed thereto in any employment agreement to which such Holder is a party or, in the absence thereof, shall include insubordination, dishonesty, incompetence, moral turpitude, other misconduct of any kind and the refusal to perform his duties and responsibilities for any reason other than illness or incapacity; *provided, however,* that if such termination occurs within 12 months after an Approved Transaction or Control Purchase or Board Change, termination for cause shall mean only a felony conviction for fraud, misappropriation, or embezzlement), then, unless otherwise determined by the Committee and provided in the applicable Agreement, (i) all Options and SARs and all unvested or unexercised Stock Units and all unpaid Cash Awards held by such Holder shall immediately terminate, and (ii) such Holder s rights to all Restricted Shares, Retained Distributions, any unpaid Dividend Equivalents and any related cash amounts shall be forfeited immediately.

(c) *Miscellaneous.* The Committee may determine whether any given leave of absence constitutes a termination of employment; *provided, however,* that for purposes of the Plan, (i) a leave of absence, duly authorized in writing by the Company for military service or sickness, or for any other purpose approved by the Company if the period of such leave does not exceed 90 days, and (ii) a leave of absence in excess of 90 days, duly authorized in writing by the Company provided the employee s right to reemployment is guaranteed either by statute or contract, shall not be deemed a termination of employment. Unless otherwise determined by the Committee and provided in the applicable Agreement, Awards made under the Plan shall not be affected by any change of employment so long as the Holder continues to be an employee of the Company.

11.3 *Right of Company to Terminate Employment.* Nothing contained in the Plan or in any Award, and no action of the Company or the Committee with respect thereto, shall confer or be construed to confer on any Holder any right to continue in the employ of the Company or any of its Subsidiaries or interfere in any way with the right of the Company or any Subsidiary of the Company to terminate the employment of the Holder at any time, with or without cause, subject, however, to the provisions of any employment agreement between the Holder and the Company or any Subsidiary of the Company.

11.4 *Nonalienation of Benefits.* Except as set forth herein, no right or benefit under the Plan shall be subject to anticipation, alienation, sale, assignment, hypothecation, pledge, exchange, transfer, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same shall be void. No right or benefit hereunder shall in any manner be liable for or subject to the debts, contracts, liabilities or torts of the Person entitled to such benefits.

11.5 *Written Agreement.* Each Award of Options shall be evidenced by a stock option agreement; each Award of SARs shall be evidenced by a stock appreciation rights agreement; each Award of Restricted Shares shall be evidenced by a restricted shares agreement; each Award of Stock Units shall be evidenced by a stock units agreement; and each Performance Award shall be evidenced by a performance award agreement (including a cash award agreement evidencing a Cash Award), each in such form and containing such terms and provisions not inconsistent with the provisions of the Plan as the Committee from time to time shall approve; *provided, however*, that if more than one type of Award is made to the same Holder, such Awards may be evidenced by a single Agreement with such Holder. Each grantee of an Option, SAR, Restricted Shares, Stock Units or Performance Award (including a Cash Award) shall be notified promptly of such grant, and a written Agreement shall be promptly executed and delivered by the Company. Any such written Agreement may contain (but shall not be required to contain) such provisions as the Committee deems appropriate (i) to insure that the penalty provisions of Section 4999 of the Code will not apply to any stock or cash received by the Holder from the Company or (ii) to provide cash payments to the Holder to mitigate the impact of such penalty provisions upon the Holder. Any such Agreement may be supplemented or amended from time to time as approved by the Committee as contemplated by Section 11.7(b).

11.6 *Designation of Beneficiaries.* Each person who shall be granted an Award under the Plan may designate a beneficiary or beneficiaries and may change such designation from time to time by filing a written designation of beneficiary or beneficiaries with the Committee on a form to be prescribed by it, provided that no such designation shall be effective unless so filed prior to the death of such person.

11.7 *Termination and Amendment.*

(a) *General.* Unless the Plan shall theretofore have been terminated as hereinafter provided, no Awards may be made under the Plan on or after the tenth anniversary of the Effective Date. The Plan may be terminated at any time prior to the tenth anniversary of the Effective Date and may, from time to time, be suspended or discontinued or modified or amended if such action is deemed advisable by the Committee.

(b) *Modification.* No termination, modification or amendment of the Plan may, without the consent of the person to whom any Award shall theretofore have been granted, adversely affect the rights of such person with respect to such Award, except as otherwise permitted by Section 11.18. No modification, extension, renewal or other change in any Award granted under the Plan shall be made after the grant of such Award, unless the same is consistent with the provisions of the Plan. With the consent of the Holder, or as otherwise permitted under Section 11.18, and subject to the terms and conditions of the Plan (including Section 11.7(a)), the Committee may amend outstanding Agreements with any Holder, including any amendment which would (i) accelerate the time or times at which the Award may be exercised and/or (ii) extend the scheduled expiration date of the Award. Without limiting the generality of the foregoing, the Committee may, but solely with the Holder s consent unless otherwise provided in the Agreement, agree to cancel any Award under the Plan and grant a new Award in substitution therefore, provided that the Award so substituted shall satisfy all of the requirements of the Plan as of the date such new Award is made. Nothing contained in the foregoing provisions of this Section 11.7(b) shall be construed to prevent the Committee from providing in any Agreement that the rights of the Holder with respect to the Award evidenced thereby shall be subject to such rules and regulations as the Committee may, subject to the express provisions of the Plan, adopt from time to time or impair the enforceability of any such provision.

11.8 *Government and Other Regulations.* The obligation of the Company with respect to Awards shall be subject to all applicable laws, rules and regulations and such approvals by any governmental agencies as may be required, including the effectiveness of any registration statement required under the Securities Act of 1933, and the rules and regulations of any securities exchange or association on which the Common Stock may be listed or quoted. For so long as any series of Common Stock are registered under the Exchange Act, the Company shall use its reasonable efforts to comply with any legal requirements (i) to maintain a registration statement in effect under the Securities Act of 1933 with respect to all shares of the applicable series of Common Stock that may be issued to Holders under the Plan and (ii) to file in a timely manner all reports required to be filed by it under the Exchange Act.

11.9 *Withholding.* The Company s obligation to deliver shares of Common Stock or pay cash in respect of any Award under the Plan shall be subject to applicable federal, state and local tax withholding requirements. Federal, state and local withholding tax due at the time of an Award, upon the exercise of any Option or SAR or upon the vesting of, or expiration of restrictions with respect to, Restricted Shares or Stock Units or the satisfaction of the Performance Objectives applicable to a Performance Award, as appropriate, may, in the discretion of the Committee, be paid in shares of the applicable series of Common Stock already owned by the Holder or through the withholding of shares otherwise issuable to such Holder, upon such terms and conditions (including the conditions referenced in Section 6.5) as the Committee shall determine. If the Holder shall fail to pay, or make arrangements satisfactory to the Committee for the payment to the Company of, all such federal, state and local taxes required to be withheld by the Company, then the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind otherwise due to such Holder an amount equal to any federal, state or local taxes of any kind required to be withheld by the Company with respect to such Award.

11.10 *Nonexclusivity of the Plan.* The adoption of the Plan by the Board shall not be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including the granting of stock options and the awarding of stock and cash otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

11.11 *Exclusion from Pension and Profit-Sharing Computation.* By acceptance of an Award, unless otherwise provided in the applicable Agreement, each Holder shall be deemed to have agreed that such Award is special incentive compensation that will not be taken into account, in any manner, as salary, compensation or bonus in determining the amount of any payment under any pension, retirement or other employee benefit plan, program or policy of the Company or any Subsidiary of the Company. In addition, each beneficiary of a deceased Holder shall be deemed to have agreed that such Award will not affect the amount of any life insurance coverage, if any, provided by the Company on the life of the Holder which is payable to such beneficiary under any life insurance plan covering employees of the Company or any Subsidiary of the Company.

11.12 *Unfunded Plan.* Neither the Company nor any Subsidiary of the Company shall be required to segregate any cash or any shares of Common Stock which may at any time be represented by Awards, and the Plan shall constitute an unfunded plan of the Company. Except as provided in Article VIII with respect to Awards of Restricted Shares and except as expressly set forth in an Agreement, no employee shall have voting or other rights with respect to the shares of Common Stock covered by an Award prior to the delivery of such shares. Neither the Company nor any Subsidiary of the Company shall, by any provisions of the Plan, be deemed to be a trustee of any shares of Common Stock or any other property, and the liabilities of the Company and any Subsidiary of the Company to any employee pursuant to the Plan shall be those of a debtor pursuant to such contract obligations as are created by or pursuant to the Plan, and the rights of any employee, former employee or beneficiary under the Plan shall be limited to those of a general creditor of the Company or the applicable Subsidiary of the Company, as the case may be. In its sole discretion, the Board may authorize the creation of trusts or other arrangements to meet the obligations of the Company under the Plan, *provided, however*, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan.

11.13 *Governing Law.* The Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware.

11.14 *Accounts.* The delivery of any shares of Common Stock and the payment of any amount in respect of an Award shall be for the account of the Company or the applicable Subsidiary of the Company, as the case may be, and any such delivery or payment shall not be made until the recipient shall have paid or made satisfactory arrangements for the payment of any applicable withholding taxes as provided in Section 11.9.

11.15 *Legends.* Each certificate evidencing shares of Common Stock subject to an Award shall bear such legends as the Committee deems necessary or appropriate to reflect or refer to any terms, conditions or restrictions of the Award applicable to such shares, including any to the effect that the shares represented thereby may not be disposed of unless the Company has received an opinion of counsel, acceptable to the Company, that such disposition will not violate any federal or state securities laws.

11.16 *Company s Rights.* The grant of Awards pursuant to the Plan shall not affect in any way the right or power of the Company to make reclassifications, reorganizations or other changes of or to its capital or business structure or to merge, consolidate, liquidate, sell or otherwise dispose of all or any part of its business or assets.

11.17 *Interpretation.* The words include, includes, included and including to the extent used in the Plan shall be deemed in each case to be followed by the words without limitation.

11.18 *Section 409A.* Notwithstanding anything in this Plan to the contrary, if any Plan provision or Award under the Plan would result in the imposition of an additional tax under Code Section 409A and related regulations and United States Department of the Treasury pronouncements (Section 409A), that Plan provision or Award will be reformed to avoid imposition of the applicable tax and no action taken to comply with Section 409A shall be deemed to adversely affect the Holder s rights to an Award or require the consent of the Holder.

000004 MR A SAMPLE DESIGNATION (IF ANY) ADD 1 ADD 2 ADD 3 ADD 4 ADD 5 ADD 6 Using a black ink pen, mark your votes with an X as shown in this example. Please do not write outside the designated areas. X Admission Ticket C123456789 000000000.000000 ext 000000000.000000 ext 000000000.000000 ext 000000000.000000 ext 000000000.000000 ext 000000000.000000 ext Electronic Voting Instructions You can vote by Internet or telephone! Available 24 hours a day, 7 days a week! Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy. VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR. Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Time, on MONTH DAY, 2008. Vote by Internet Log on to the Internet and go to www.investorvote.com/tickersymbol Follow the steps outlined on the secured website. Vote by telephone Call toll free 1-800-652-VOTE (8683) within the United States, Canada & Puerto Rico any time on a touch tone telephone. There is NO CHARGE to you for the call. Follow the instructions provided by the recorded message. 123456 C0123456789 12345Annual Meeting Proxy Card . IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. . A Proposals The Board of Directors recommends a vote FOR Proposals 1 through 6. For Against Abstain 1. Merger Proposal: To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of June 4, 2008. 2. Preferred Stock Issuance Proposal: To consider and vote upon a proposal to issue New Discovery Series A and Series C convertible preferred stock to Advance/Newhouse Programming Partnership. 3. Authorized Stock Proposal: To consider and vote upon a proposal to increase the number of shares of common stock and preferred stock which New Discovery will have authority to issue. 4. Incentive Plan Proposal: To consider and vote upon a proposal to increase the number of shares of common stock with respect to which awards may be granted under the Discovery Holding Company 2005 Incentive Plan. B Non-Voting Items Change of Address Please print new address below. + 5. Election of Directors Proposal: Election of Class III Directors to serve on the board of directors until the 2011 Annual Meeting of stockholders or until their successors are elected: For Withhold 01 John C Malone 02 Robert R Bennett 6. Auditor Ratification Proposal: To consider and vote upon a proposal to ratify the selection of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2008. Annual Report Mark the box to the right if you would like to stop receiving an Annual Report. For Against Abstain Meeting Attendance Mark box to the right if you plan to attend the Annual Meeting. Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below NOTE: Please sign your name(s) EXACTLY as your name(s) appear(s) on this proxy. All joint holders must sign. When signing as attorney, trustee, executor, administrator, guardian or corporate officer, please provide your FULL title. Date (mm/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep signature within the box. MR A SAMPLE (THIS AREA IS SET UP TO ACCOMMODATE C 1234567890 J N T 140 CHARACTERS) MR A SAMPLE AND MR A SAMPLE AND MR A SAMPLE AND MR A SAMPLE AND MR A SAMPLE AND 1UPX 0190511 MR A SAMPLE AND MR A SAMPLE AND MR A SAMPLE AND + STOCK# 00XX9B

Admission Ticket Notice of 2008 Annual Meeting September 16, 2008, 9 a.m. Local Time at Starz Entertainment, LLC 8900 Liberty Circle Englewood, CO 80112 Tel. No. (720) 852-7700 Discovery Holding Company,s Annual Meeting will be held at 9 a.m. local time on September 16, 2008 Starz Entertainment, LLC, 8900 Liberty Circle, Englewood, CO 80112 , Tel. No. (720) 852-7700. If you plan to attend the Annual Meeting, please tear off and keep the upper portion of this form as your ticket for admission to the meeting. This ticket, along with a form of personal identification, admits the named Shareholder(s) and one guest. Your vote is important. Regardless of whether you plan to attend the meeting, it is important that your shares be voted. Accordingly, we ask that you vote your shares as soon as possible using one of three convenient methods: over the phone, over the Internet or by signing and returning your proxy card in the envelope provided. If you plan to attend the meeting, please mark the appropriate box on the proxy. ___IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. ___Proxy Discovery Holding Company THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS The undersigned appoints Christopher W. Shean and Charles Y. Tanabe with power to act without the other and with the right of substitution in each, the proxies of the undersigned to vote all shares of Common Stock of Discovery Holding Company, held by the undersigned at the Annual Meeting of shareholders to be held on September 16, 2008, and at any adjournments thereof, with all the powers the undersigned would possess if present in person. All previous proxies given with respect to the meeting are revoked. IF NO DIRECTIONS ARE GIVEN, THE PROXIES WILL VOTE FOR THE ELECTION OF THE LISTED NOMINEE AND IN ACCORD WITH THE DIRECTORS, RECOMMENDATIONS OF THE OTHER SUBJECTS LISTED ON THE OTHER SIDE OF THE PROXY CARD. IN THE EVENT THAT ANY OTHER MATTER MAY PROPERLY COME BEFORE THE ANNUAL MEETING, OR ANY ADJOURNMENT THEREOF, THE PERSONS SET FORTH ABOVE ARE AUTHORIZED, AT THEIR DISCRETION, TO VOTE THE MATTER. PLEASE SIGN ON THE OTHER SIDE AND RETURN PROMPTLY TO DISCOVERY HOLDING COMPANY, C/O COMPUTERSHARE, P.O. BOX 43101, PROVIDENCE, RI 02940-0567. IF YOU DO NOT VOTE BY TELEPHONE OR INTERNET, OR SIGN AND RETURN A PROXY CARD, OR ATTEND THE ANNUAL MEETING AND VOTE BY BALLOT, YOUR SHARES CANNOT BE VOTED. (CONTINUED AND TO BE SIGNED ON REVERSE SIDE)