The Company has the exclusive rights to represent BBC America ("BBCA"), a cable network, in sales, marketing, distribution and other operational activities through 2013. As a par
is agreement, the Company will receive a percentage of revenues earned and collected by BBCA during the representation term. The cost of acquiring the representation rights is bein
rtized on a straight-line basis over the fifteen-year term of the agreement, and is reported as a reduction of revenue.

Amortization of intangible assets amounted to $41.8 million, $33.8 million and $17.8 million in 2004, 2003 and 2002.

The Company estimates that unamortized costs of intangible assets at December 31, 2004 will be amortized over the next five years as follows: $44.1 million in 2005, $41.1 million i
, $28.6 million in 2007, $20.1 million in 2008, and $9.8 million in 2009.

**Investments in Affiliated Companies**

**Joint Ventures with the British Broadcasting Corporation ("BBC")**

The Company and the BBC have formed cable and satellite television network joint ventures, a venture to produce and acquire factual based programming ("JV Programs" or "JVP")
a venture to provide debt funding to the cable and satellite television network joint ventures and JV Programs venture ("JV Network"). In addition to its own funding requirements, th
pany has assumed the BBC funding requirements for each of these ventures. As a result, the Company has preferential cash distribution agreements with these ventures. The ventures
no distributable cash in 2004 and distributed $1.7 million in accordance with the agreements in 2004 and 2003.

Because the BBC does not have risk of loss, no losses were allocated to minority interest for consolidated joint ventures with the BBC. The Company recognizes both its own and th
's share of losses in equity method ventures with the BBC.

**Variable Interest Entities**

The Company is a partner in several joint ventures accounted for under the equity method in which it has a variable interest.

JV Programs produces and acquires factual based programming that it then sells to the Company for use on many of the Company's joint venture and wholly owned networks. The
pany's funding to JVP was $14.4 million, $5.4 million and $3.4 million during 2004, 2003 and 2002. The Company acquired and licensed $44.1 million, $43.9 million and
9 million of programming from JVP for its networks during 2004, 2003 and 2002. At December 31, 2004, the Company's maximum exposure to loss as a result of its involvement wi
is the $55.1 million book value of its investment in JVP and future operating losses of JVP that the Company is obligated to fund. JVP has no third party debt. If JVP were to be
olidated under FIN 46R, the Company expects the net impact to the consolidated financial statements to be insignificant. Substantially all of JVP's activities are with the Company an
e are already reflected in the financial statements.

The Company is a partner in other international joint venture cable and satellite television networks in which the Company has a variable interest. The Company's funding to these
ventures totaled $3.3 million, $7.5 million and $9.9 million during 2004, 2003 and 2002. At December 31, 2004, the Company's maximum exposure to loss as a result of its
lvement with these joint ventures is the

3 million book value of its investments in these joint ventures and future operating losses of these joint ventures that the Company is obligated to fund. These joint ventures have no party debt.

The following table outlines the Company's joint ventures and the method of accounting during 2004, 2003 and 2002:

| Affiliates: | Accounting Method |
|---|---|
| ***Joint Ventures with the BBC:*** | |
| JV Network | Consolidated |
| JV Programs | Equity |
| Animal Planet United States (see Note 11) | Consolidated |
| Animal Planet Europe | Consolidated |
| Animal Planet Latin America | Consolidated |
| People & Arts Latin America | Consolidated |
| Animal Planet Asia | Consolidated |
| Animal Planet Japan | Equity |
| Animal Planet Canada | Equity |
| ***Other Ventures:*** | |
| Discovery Times Channel (see Note 11) | Consolidated |
| FitTV (f.k.a. The Health Network) (see Note 11) | Consolidated |
| Discovery Canada | Equity |
| Discovery Japan | Equity |
| Discovery Health Canada | Equity |
| Discovery Kids Canada | Equity |
| Discovery Civilization Canada | Equity |
| Meteor Studios | Equity |

Combined financial information of the Company's unconsolidated ventures (amounts do not reflect any eliminations of activity with the Company):

| Operating Results, Year ended December 31, | 2004 | 2003 | 2002 |
|---|---|---|---|
| | | In thousands | |
| Revenue | $ 163,630 | $ 145,786 | $ 106,598 |
| Income from operations | 26,201 | 13,278 | 4,806 |
| Net income (loss) | 8,688 | 1,155 | (1,060) |

| Balance Sheets, December 31, | 2004 | 2003 |
|---|---|---|
| | In thousands | |
| Current assets | $ 68,554 | $ 65,046 |
| Total assets | 136,703 | 117,772 |
| Current liabilities | 21,817 | 17,880 |
| Total liabilities | 46,683 | 42,382 |
| Total shareholders' equity or partners' capital | 90,020 | 75,390 |

THIS PAGE INTENTIONALLY LEFT BLANK

**Long-Term Debt**

| Term Debt, December 31, | | 2004 | | 2003 |
|---|---|---|---|---|
| | | In thousands | | |
| 50.0 Term Loan, due quarterly from 2007 to 2009 | $ | 1,250,000 | $ | — |
| 50.0 Revolving Loan, due June 2009 | | 238,000 | | — |
| 36.5 Term Loan and Revolving Loans, paid 2004 | | — | | 1,334,000 |
| % Senior Notes, semi annual interest, due March 2006 | | 300,000 | | 300,000 |
| % Senior Notes, semi annual interest, due March 2008 | | 180,000 | | 180,000 |
| % Senior Notes, semi annual interest, due March 2011 | | 220,000 | | 220,000 |
| % Senior Notes, semi annual interest, due September 2009 | | 55,000 | | 55,000 |
| % Senior Notes, semi annual interest, due September 2012 | | 235,000 | | 235,000 |
| gations under capital leases | | 25,125 | | 19,631 |
| r notes payable | | 4,898 | | 8,061 |
| l long-term debt | | 2,508,023 | | 2,351,692 |
| ent portion | | (9,736) | | (517,750) |
| -current portion | $ | 2,498,287 | $ | 1,833,942 |

In June 2004, the Company successfully refinanced the Term Loan and the Revolving Loans, maturing in 2004 and 2005, with a new Term Loan and Revolving Facility. The pany capitalized $8.5 million in deferred financing costs as part of the new term and revolving loan facility and expensed $6.3 million in capitalized costs associated with the previou loan and revolving loans.

All Term and Revolving Loans are unsecured. Interest, which is payable quarterly, is based on the London Interbank Offered Rate ("LIBOR") or prime rate plus a margin based on th pany's leverage ratios. The weighted average interest rate on these facilities was 3.7% and 2.5% at December 31, 2004 and 2003, and the interest rate averaged 2.9% and 2.7% during and 2003. The cost of the Revolving Loans includes a fee (ranging from 0.125% to 0.375%) based on the Company's leverage ratios. The Company uses derivative instruments to ify its exposure to interest rate fluctuations on its debt.

The Term Loans, Revolving Loans, and Senior Notes contain covenants that require the Company to meet certain financial ratios and place restrictions on the payment of dividends, of assets, additional borrowings, mergers, and purchases of capital stock, assets, and investments. The Company was in compliance with all debt covenants at December 31, 2004.

Future principal payments under the current debt arrangements, excluding obligations under capital leases and other notes payable, are as follows: no payments in 2005, $300 million 006, $234 million in 2007, $961 million in 2008, $527 million in 2009 and $456 million from 2011 to 2012. Future minimum payments under capital leases are as follows: $5.1 millio 005, $5.5 million in 2006, $5.7 million in 2007, $3.8 million in 2008, $3.8 million in 2009 and $8.4 million thereafter.

**Mandatorily Redeemable Interests in Subsidiaries**

| Mandatorily Redeemable Interests in Subsidiaries, December 31, | | 2004 | | 2003 |
|---|---|---|---|---|
| | | In thousands | | |
| Discovery Times | $ | 125,763 | $ | 123,896 |
| FitTV (f.k.a. The Health Network) | | 92,874 | | 94,000 |
| Discovery Health Channel | | — | | 143,736 |
| Animal Planet LLC | | 50,000 | | — |
| Animal Planet LP | | 48,730 | | 48,620 |
| People & Arts Latin America and Animal Planet Channel Group | | 2,200 | | — |
| Mandatorily redeemable interests in subsidiaries | $ | 319,567 | $ | 410,252 |

**Discovery Times**

In April 2002, the Company sold a 50% interest in Discovery Times Channel to the New York Times ("NYT") for $100 million. Due to NYT redemption rights, this transaction ed in no gain or loss to the Company. While the Company consolidates the financial results of Discovery Times, no losses of Discovery Times have been allocated to minority interes the NYT's redemption feature, and the Company has recorded the interest held by NYT as mandatorily redeemable interest in a subsidiary.

NYT has the right, in April 2005, and again in April 2006, to put its interest back to the Company for a value determined by a specified formula, with a floor of $80 million and a g of $125 million in April 2005, and a floor of $80 million and a ceiling of $135 million in April 2006. The Company accretes or decretes the mandatorily redeemable interest in a diary to its estimated redemption value through the redemption date. The Company updates its estimate of the redemption value each period and based on its most recent calculations, ompany will decrete to an amount representing the estimated value of $101.1 million. The Company recorded decretion of $1.3 million in 2004 and accretion of $7.0 million and nillion to minority interest expense in 2003 and 2002.

After 2006, the NYT has certain other protective rights that, if triggered and not cured, could require the Company to repurchase the NYT interest for a value determined by a specifie la.

**FitTV (f.k.a. The Health Network)**

Fox Entertainment Group (FEG) had the right, from December 2003 to February 2004, to put its FitTV interests back to the Company. In December 2003, FEG notified the Company intention to put its interest in FitTV back to the Company. The Company estimates that it will acquire this interest for approximately $92.9 million in 2005. The Company recorded tion of $1.1 million in 2004 and recorded accretion of $8.5 million and $11.1 million in 2003 and 2002 to minority interest expense.

**Discovery Health Channel (DHC)**

During the second quarter of 2004, Comcast put its DHC interests back to the Company for $148.9 million. The Company recorded accretion of $5.1 million, $20.4 million and million to minority interest expense in 2004, 2003 and 2002.

**Animal Planet LLC**

Beginning March 2003, the BBC has the right to put its Animal Planet LLC ("APUS") interests back to the Company. In April 2004, the BBC notified the Company of its intention to ts interest in APUS back to the Company. The Company estimates a range of possible outcomes to acquire this interest. Given the uncertainty associated with the determination of the redemption value of this interest (which will be based on the terms outlined in the agreement), the Company has recorded accretion of $50.0 million in 2004 to minority interest nse. At December 31, 2003, the Company determined there was no redemption value associated with this right.

**Animal Planet LP**

One of the Company's stockholders holds 44,000 senior preferred partnership units of Animal Planet LP ("APLP") that have a redemption value of $44.0 million and carry a rate of n ranging from 8.75% to 13%. Payments are made quarterly and totaled $4.6 million, $5.8 million and $4.4 million during 2004, 2003 and 2002. APLP's senior preferred partnership may be called by APLP during the period January 2007 through December 2011 for $44.0 million, and may be put to the Company by the holder beginning in January 2012 for ) million. At December 31, 2004, and 2003, the Company has recorded this security at the redemption value of $44.0 million plus accrued returns of $4.7 million and $4.6 million. rred returns are recorded as a component of interest expense and aggregated $4.7 million in 2004, 2003 and 2002.

**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 t Latin America) to achieve certain financial performance benchmarks as of December 2005, and every three years thereafter, to put its interests back to the Company for a value mined by a specified formula. The Company accretes or decretes the mandatorily redeemable equity in a subsidiary to its estimated redemption value through the 2005 redemption The redemption value is based on a contractual formula utilizing projected results of each network within the channel group. At December 31, 2004, the Company has estimated a nption value of $15.3 million. At December 31, 2003, the Company determined there was no redemption value associated with this right. Accretion to the redemption value has been ded as a component of minority interest expense of $2.2 million in 2004.

**Stockholders' Deficit**

In September 2001, the Company sold 50,615 shares of Class B Non-voting Common Stock to its existing shareholders for $100.0 million. In September 2002, the Company chased these shares for $109.0 million. The appreciation of the shares represented a fair transition value as was confirmed in consultation with an investment bank.

**Stockholder Put Right**

In June 2003, the Company's founder, John Hendricks, put 215 outstanding shares of Class A Common Stock to the Company in exchange for $55.3 million. Concurrent with this action, outstanding loans, secured by Mr. Hendricks' shares and vested compensation units, of $23.6 million to Mr. Hendricks were repaid to the Company with interest. Prior to this nase, the value of these s had been recorded as redeemable common stock and changes in value had been recorded to stockholders' deficit.

The Company received a third party valuation to record the transactions. The valuation reflected a lower value for the Company than had been previously estimated and, as a result, th pany decreased the carrying value of the stock by $13.7 million and reduced compensation expense recorded in prior years associated with the loans by $2.3 million in connection wit ttlement.

**Commitments and Contingencies**

The Company leases certain satellite transponders, facilities and equipment under operating leases that expire through 2019. The Company is obligated to license programming under ments that expire through 2012.

| Future Minimum Payments, Year ending December 31, | Leases | Programming | Other | Total |
|---|---|---|---|---|
| | | In thousands | | |
| 2005 | $ 80,088 | $ 201,857 | $ 66,170 | $ 348,115 |
| 2006 | 67,689 | 64,857 | 52,908 | 185,454 |
| 2007 | 62,298 | 55,155 | 54,550 | 172,003 |
| 2008 | 57,336 | 55,893 | 46,570 | 159,799 |
| 2009 | 31,596 | 57,010 | 16,907 | 105,513 |
| Thereafter | 178,748 | 100,898 | 4,080 | 283,726 |
| Total | $ 477,755 | $ 535,670 | $ 241,185 | $ 1,254,610 |

Expenses recorded in connection with operating leases, including rent expense, were $127.8 million, $128.7 million and $131.7 million for the years ended December 31, 2004, 2003 002.

In connection with the long-term distribution agreements for certain of its European cable networks, the Company is committed to pay a satellite system operator 25% to 49% of the ise in value of these networks, if any, at the termination of the contract on December 31, 2006. The value of the networks at the termination date, and the Company's liability thereon, aterially impacted by the terms of future renewed or extended distribution agreements with the satellite system operator. The Commitment was designed as an incentive to enter into ved or extended agreement. However, the Company is currently unable to predict the terms and conditions of any renewal or extension of the distribution agreements. The Company ecorded a liability associated with this arrangement based on the estimated value of the networks at the termination of the agreement if no renewal is in place and adjusts such liability period for changes in value. However, if the current distribution agreement is renewed or extended before the expiration of the existing agreement, amounts to be paid in 2007 to this n operator could be significantly higher than amounts currently accrued. The Company will record the effect of a renewed or extended distribution agreement when such terms are in

The Company is solely responsible for providing financial, operational and administrative support to the JV Programs, JV Network, Animal Planet United States, Animal Planet Latin ica, People & Arts Latin America, Animal Planet Asia, and Animal Planet Europe ventures and has committed to do so through at least fiscal 2005.

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 use · Company's programming. 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 ·ial adverse effect on the Company's results of operations, cash flows, or financial position.

**Employee Savings Plans**

The Company maintains two separate employee savings plans, a defined contribution savings plan for its employees and a Supplemental Deferred Compensation Plan (together, the ngs Plans") for certain management employees.

The Company matches participant contributions at a rate of 75% up to a maximum of 6% of the participant's annual compensation. The Company contributions to the Savings Plans $6.8 million, $5.5 million and $5.7 million during 2004, 2003 and 2002.

**Long-term Compensation Programs**

The Company recorded expense of $71.5 million, $76.5 million, and $94.6 million in connection with these plans during 2004, 2003, and 2002.

**Long-term Incentive Plans**

The Company maintains unit-based, long-term incentive plans for its employees who meet certain eligibility criteria. Units are awarded to eligible employees upon their one-year ersary of hire and vest at a rate of 25% per year thereafter. Upon exercise, participants receive the increase in value of the units from the unit value at the date of issuance. The pany has authorized the issuance of up to 33.1 million units under these plans.

From the period April 1 to May 31, certain eligible participants have the option to exercise any portion of their vested units. All other employees may redeem some or all of their units g a window of time five years subsequent to the date of the award. The Company pays amounts for the exercise of units on September 30 of the year of exercise. However, the pany may defer, with interest, payment of up to 75% of any benefit for a period not longer than September 30 of the year subsequent to exercise.

Upon voluntary termination of employment the Company distributes 75% of vested and exercisable benefits to certain senior executives. These employees are required to comply wit employment obligations to receive payment of withheld benefits upon the one-year anniversary of employment termination. All other participants receive their full vested benefit upo tary termination.

The 25% vested and exercisable employee benefits that would be withheld upon employee termination in the amount of $60.7 million, have been classified as long-term liability in th npanying balance sheet. All other vested employee unit incentive compensation liabilities are classified as current liabilities in the accompanying balance sheet. Although classified a nt liabilities, the Company's actual cash disbursements under the plans were $45.9 million, $27.9 million and $36.9 million during 2004, 2003 and 2002.

All awards must be redeemed and applicable benefits paid by the Company on the tenth anniversary of each award. During 2004, the Company paid $8.5 million in awards, which hac ed their tenth anniversary date.

Unit appreciation is recorded as compensation expense over the vesting periods. Compensation expense was $68.8 million, $101.7 million and $61.7 million in 2004, 2003 and 2002. ccrued value of units based on the Company's vesting schedule was $322.4 million and $299.5 million at December 31, 2004 and 2003.

The unaccrued value of awarded units was $15.4 million and $4.5 million at December 31, 2004 and 2003.

During 2004, 2003 and 2002, the Company granted 8.7 million, 4.1 million and 2.3 million units with weighted average exercise prices of $34.22, $29.02, and $25.74. Units redeemec ncelled during 2004, 2003, and 2002 totaled 2.3 million, 2.1 million, and 3.5 million with weighted average exercise prices of $13.49, $14.18, and $13.66. For the years ended mber 31, 2004, 2003, and 2002, units outstanding totaled 25.6 million, 19.1 million, and 17.2 million with weighted average exercise prices of $24.10, $18.18, and $15.12, and units isable totaled 17.5 million, 16.5 million, and 13.9 million with weighted average exercise prices of $19.76, $16.65, and $13.18. At the beginning of fiscal year 2002, outstanding units d 18.4 million with a weighted average exercise price of $13.52.

As of December 31, 2004, outstanding units had several ranges of exercise prices. The Company has 1.6 million units outstanding and exercisable at exercise prices ranging from to $8.14 with a weighted average contractual life remaining of 1 year and a weighted average exercise price of $6.47. The Company has 9.5 million units outstanding and exercisable ercise prices ranging from $10.96 to $22.18 with a weighted average contractual life remaining of 4.2 years and a weighted average exercise price of $15.30. The Company has million units outstanding at exercise prices ranging from $25.02 to $37.35 with a weighted average contractual life remaining of 8.5 years and weighted average exercise price of 5. Of these, 6.4 million units, with a weighted average exercise price of $29.78, are exercisable.

The value of units at the end of the year was $37.35, $34.06, and $28.60 for 2004, 2003, and 2002. The value of the units is determined based on changes in the Company's value as ated by an external investment banking firm. The average assumptions used in the valuation model include adjusted projected operating cash flows segregated by business group. The tion also includes a business group specific discount rate and terminal value based on business risk.

**Unit Appreciation and Incentive Agreement**

As part of his long-term incentive plan with the Company, the Company's founder, John Hendricks, had a 10-year incentive agreement with the Company that granted him a cash d equal to 1.6% of the difference between the Company's value at December 31, 1993 and December 31, 2003 for his services as Chairman and Chief Executive Officer during the d. This cash award was paid out to Mr. Hendricks in two installments, one in December 2003 and one in February 2004. The final determination of value was based on an appraisal an investment banking firm using a consistent valuation methodology both at the beginning and the end of the 10-year term. The portion of the cash award that was paid out in ary 2004 has been included as a current liability at December 31, 2003. The estimated change in value of this incentive has been recorded as a component of compensation expense g the term of the agreement.

**Income Taxes**

| Income Tax Expense (Benefit), Year ended December 31, | | 2004 | | 2003 | | 2002 |
|---|---|---|---|---|---|---|
| | | | | In thousands | | |
| Current | | | | | | |
| Federal | $ | (231) | $ | 2,813 | $ | — |
| State | | 3,952 | | 6,722 | | 6,156 |
| Foreign | | 32,556 | | 22,970 | | 21,588 |
| Total current income tax provision | | 36,277 | | 32,505 | | 27,744 |
| Deferred | | | | | | |
| Federal | | 95,761 | | 33,963 | | (25,189) |
| State | | 7,723 | | 5,175 | | (12,134) |
| Total deferred income tax expense (benefit) | | 103,484 | | 39,138 | | (37,323) |
| Change in valuation allowance | | 2,038 | | 3,142 | | (478) |
| Total income tax expense (benefit) | $ | 141,799 | $ | 74,785 | $ | (10,057) |

| | 2004 | | | | 2003 | | | |
|---|---|---|---|---|---|---|---|---|
| ed Income Tax Assets and Liabilities December 31, | | Current | | Non-current | | Current | | Non-current |
| | | | | In thousands | | | | |
| ts | | | | | | | | |
| oss carryforwards | $ | 1,148 | $ | 20,090 | $ | 21,077 | $ | 18,460 |
| ompensation | | 102,595 | | 22,745 | | 169,003 | | 24,216 |
| ccrued expenses | | 26,474 | | — | | 30,857 | | — |
| eserves and allowances | | 8,720 | | 10,132 | | 9,568 | | 10,214 |
| ax credits | | 4,330 | | — | | 3,118 | | — |
| erivative financial instruments | | — | | 16,979 | | — | | 34,186 |
| vestments | | — | | 69,729 | | — | | 84,306 |
| tangibles | | — | | 31,627 | | — | | 23,756 |
| ther | | 3,066 | | 8,342 | | 441 | | 2,480 |
| | | 146,333 | | 179,644 | | 234,064 | | 197,618 |
| aluation allowance | | — | | (19,554) | | — | | (17,516) |
| deferred income tax assets | | 146,333 | | 160,090 | | 234,064 | | 180,102 |
| lities | | | | | | | | |
| ccelerated depreciation | | — | | (20,908) | | — | | (18,263) |
| tangibles | | — | | — | | — | | (788) |
| oreign currency translation | | — | | (13,687) | | — | | (7,193) |
| nrealized gains on investments | | — | | (720) | | — | | (2,343) |

| | | | | |
|---|---|---|---|---|
| Other | (1,727) | (10,102) | (1,371) | (4,747) |
| Total deferred income tax liabilities | (1,727) | (45,417) | (1,371) | (33,334) |
| Deferred income tax assets, net | $ 144,606 | $ 114,673 | $ 232,693 | $ 146,768 |

| Reconciliation of Effective Tax Rate, Year ended December 31, | 2004 | 2003 | 2002 |
|---|---|---|---|
| Federal statutory rate | 35.0% | 35.0% | 35.0% |
| Increase (decrease) in tax rate arising from: | | | |
| State income taxes, net of Federal benefit | 2.4 | 7.9 | 6.7 |
| Foreign withholding taxes, net of Federal benefit | 6.4 | 12.2 | (24.1) |
| Other | 2.0 | (0.9) | (0.3) |
| Effective income tax rate | 45.8% | 54.2% | 17.3% |

The Company has Federal operating loss carryforwards of $3.3 million expiring in 2021 and state operating loss carryforwards of $526.9 million in various state jurisdictions availabl fset future taxable income that expire in various amounts through 2024. The Company also has $4.3 million of alternative minimum tax credits that do not have an expiration date.

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 than not.

Deferred taxes of $3.8 million have been provided for the excess book basis in the shares of certain foreign subsidiaries, because these are not permanent in nature as defined by unting Principles Board Opinion 23, *Accounting for Income Taxes—Special Areas* .

**Financial Instruments**

**Derivative 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 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 uments, are used to modify this exposure. These instrument contracts include a combination of swaps, caps, collars, and other structured instruments to modify interest rate exposure. ecember 31, 2004, the variable to fixed interest rate instruments have a notional principal amount of $800 million and have a weighted average interest rate of 5.93%. At December 3 , the fixed to variable interest rate agreements have a notional principal amount of $240 million and have a weighted average interest rate of 6.46%. At December 31, 2004, an ercised interest rate swap put right held by a bank had a notional amount of $25 million and a written rate of 5.4%. As a result of unrealized mark to market adjustments, the Company gnized $44.1 million, $21.6 million and $(13.4) million in gains and losses on these instruments during 2004, 2003 and 2002.

The foreign exchange instruments used are spot, forward, and option contracts. Additionally, the Company enters into non-designated forward contracts to hedge non-dollar minated cash flows and foreign currency balances. At December 31, 2004, the notional amount of foreign exchange derivative contracts was $92.8 million. As a result of unrealized to market adjustments, the Company recognized $(0.4) million, $(0.1) million and $1.8 million in losses and gains on these instruments during 2004, 2003 and 2002.

The Company's derivative financial instruments are recorded at fair value as a component of long-term liabilities and other current liabilities in the consolidated balance sheets.

**Fair Value of Financial Instruments**

The fair values of cash and cash equivalents, receivables, and accounts payable approximate their carrying values. Investments are carried at fair value and fluctuations in fair value ar ded through other comprehensive income. 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 $2,478 million and the fair value was $2,586 million at December 31, 2004. The carrying amount of the Company's wings was $2,324 million and the fair value was $2,440 million at December 31, 2003.

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 $(44.8) million at mber 31, 2004; 8.9%, 6.5% and 84.6% of these derivative instrument contracts will expire in 2005, 2006, and thereafter. The fair value of the Company's derivative instruments totale 3) million at December 31, 2003.

The fair value of derivative contracts was estimated by obtaining interest rate and volatility market data from brokers. As of December 31, 2004, an estimated 100 basis point parallel in the interest rate yield curve would change the fair value of the Company's portfolio by approximately $11.4 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 erformance 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, 2004 due to the wide variety of customers and markets in h the Company operates and their dispersion across many geographic areas.

**Related Party Transactions**

The Company identifies related parties as investors and their consolidated businesses, equity investment companies, and executive management. The most significant transactions wit d parties result from companies that distribute networks, produce programming, or provide media uplink services. Gross revenue earned from related parties was $71.8 million, .2 million and $205.1 million in 2004, 2003 and 2002. Accounts receivable from these entities were $10.9 million and $33.3 million at December 31, 2004 and 2003. Purchases from d parties totaled $133.2 million, $164.7 million, and $144.7 million in 2004, 2003, 2002; of these $91.0 million, $101.1 million and $99.9 million relate to capitalized assets, ipally programming. Amounts payable to these parties totaled $4.3 million and $52.6 million at December 31, 2004 and 2003.

LMA05

THIS PAGE INTENTIONALLY LEFT BLANK

THIS PAGE INTENTIONALLY LEFT BLANK

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# AMENDMENT NO. 3
# TO
# FORM 10

**GENERAL FORM FOR REGISTRATION OF SECURITIES**
**Pursuant to Section 12(b) or 12(g) of**
**The Securities Exchange Act of 1934**

## Discovery Holding Company
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State of incorporation or organization) | **20-2471174**<br>(I.R.S. Employer Identification No.) |
| **12300 Liberty Boulevard**<br>**Englewood, Colorado**<br>(Address of principal executive offices) | **80112**<br>(Zip Code) |

Registrant's telephone number, including area code *(720) 875-4000*

Securities to be registered pursuant to Section 12(b) of the Act:
**None**

Securities to be registered pursuant to Section 12(g) of the Act:

**Series A Common Stock, $0.01 par value**
(Title of class)

**Series A Preferred Share Purchase Rights**
(Title of class)

**Series B Common Stock, $0.01 par value**
(Title of class)

**Series B Preferred Share Purchase Rights**
(Title of class)

**Discovery Holding Company**

**Our Information Statement is filed as Exhibit 99.1 to this Form 10. For your convenience, we have provided below a cross-reference sheet identifying where the items required by Form 10 can be found in the Information Statement.**

| Item No. | Item Caption | Location in Information Statement |
|---|---|---|
| 1. | Business. | Summary; Risk Factors; Cautionary Statement Concerning Forward Looking Statements; Selected Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations; Description of Our Business and Certain Inter-Company Agreements |
| 2. | Financial Information. | Summary; Risk Factors; Capitalization; Selected Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations and Financial Statements |
| 3. | Properties. | Description of Our Business—Properties |
| 4. | Security Ownership of Certain Beneficial Owners and Management. | Management—Security Ownership of Certain Beneficial Owners; and —Security Ownership of Management |
| 5. | Directors and Executive Officers. | Management |
| 6. | Executive Compensation. | Management |
| 7. | Certain Relationships and Related Transactions. | Summary; Risk Factors; Management and Certain Inter-Company Agreements |
| 8. | Legal Proceedings. | Description of our Business—Legal Proceedings |
| 9. | Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters. | Summary; The Spin Off; Risk Factors and Description of Our Capital Stock |
| 10. | Recent Sales of Unregistered Securities. | Not Applicable |
| 11. | Description of Registrant's Securities to be Registered. | Description of Our Capital Stock |
| 12. | Indemnification of Directors and Officers. | Indemnification of Directors and Officers |
| 13. | Financial Statements and Supplementary Data. | Summary; Selected Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations and Financial Statements |
| 14. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure. | Not Applicable |

15. Financial Statements and Exhibits

(a) *Financial Statements*: The following financial statements are included in the Information Statement and filed as part of this Registration Statement:

**LMC Discovery Group**

Unaudited Condensed Combined Balance Sheets as of March 31, 2005 and December 31, 2004

Unaudited Condensed Combined Statements of Operations and Comprehensive Earnings for the three months ended March 31, 2005 and 2004

Unaudited Condensed Combined Statement of Parent's Investment for the three months ended March 31, 2005

Unaudited Condensed Combined Statements of Cash Flows for the three months ended March 31, 2005 and 2004

Notes to Condensed Combined Financial Statements (unaudited)

Report of Independent Registered Public Accounting Firm

Combined Balance Sheets as of December 31, 2004 and 2003

Combined Statements of Operations and Comprehensive Earnings (Loss) for the years ended December 31, 2004, 2003 and 2002

Combined Statements of Parent's Investment for the years ended December 31, 2004, 2003 and 2002

Combined Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002

Notes to Combined Financial Statements

**Discovery Communications, Inc.**

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2004 and 2003

Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Changes in Stockholders' Deficit for the years ended December 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

(b) *Exhibits*. The following documents are filed as exhibits hereto:

| Exhibit Number | Exhibit Description |
|---|---|
| 2.1 | Form of Reorganization Agreement among Liberty Media Corporation, the Registrant and Ascent Media Group, Inc.* |
| 3.1 | Form of Restated Certificate of Incorporation of the Registrant to be in effect at the time of the spin off |

| Exhibit Number | Exhibit Description |
|---|---|
| 3.2 | Form of Bylaws of the Registrant to be in effect at the time of the spin off |
| 4.1 | Specimen Certificate for shares of the Series A common stock, par value $.01 per share, of the Registrant* |
| 4.2 | Specimen Certificate for shares of the Series B common stock, par value $.01 per share, of the Registrant* |
| 4.3 | Form of Rights Agreement between the Registrant and EquiServe Trust Company, N.A., as Rights Agent* |
| 10.1 | The Shareholders Agreement, dated as of November 30, 1991 (the "Stockholders' Agreement"), by and among Discovery Communications, Inc. ("Discovery"), Cox Discovery, Inc. ("Cox"), NewChannels TDC Investments, Inc. ("NewChannels"), TCI Cable Education, Inc. ("TCID") and John S. Hendricks ("Hendricks")* |
| 10.2 | First Amendment to the Stockholders' Agreement, dated as of December 20, 1996, by and among Discovery, Cox Communications Holdings, Inc. (the successor to Cox), Newhouse Broadcasting Corporation (the successor to NewChannels), TCID, Hendricks and for the purposes stated therein only, LMC Animal Planet, Inc. ("LMC") and Liberty Media Corporation, a Colorado corporation ("Liberty")* |
| 10.3 | Second Amendment to the Stockholders' Agreement, dated as of September 7, 2000, by and among Discovery, Cox Communications Holdings, Inc. (the successor to Cox), Advance/Newhouse Programming Partnership (the successor to NewChannels), LMC Discovery, Inc. (formerly known as TCID) and Hendricks* |
| 10.4 | Third Amendment to the Stockholders' Agreement, dated as of September, 2001, by and among Discovery, Cox, NewChannels, TCID, Hendricks and Advance Programming Holdings Corp.* |
| 10.5 | Fourth Amendment to the Stockholders' Agreement, dated as of June 23, 2003, by and among Discovery, Cox, NewChannels, TCID, Liberty Animal, Inc. (the successor in interest to LMC) for the purposes stated in the First Amendment to the Stockholders' Agreement, and Hendricks* |
| 10.6 | Form of Tax Sharing Agreement between Liberty Media Corporation and the Registrant* |
| 10.7 | Discovery Holding Company 2005 Incentive Plan* |
| 10.8 | Discovery Holding Company 2005 Non-Employee Director Plan |
| 10.9 | Form of Discovery Holding Company Transitional Stock Adjustment Plan |
| 10.10 | Form of Agreement between the Registrant and John C. Malone* |
| 10.11 | Agreement, dated June 24, 2005, between Discovery and the Registrant* |
| 10.12 | Indemnification Agreement, dated as of June 24, 2005, between Cox and the Registrant* |
| 10.13 | Indemnification Agreement, dated as of June 24, 2005, between NewChannels and the Registrant* |
| 10.14 | Form of Indemnification Agreement with Directors and Executive Officers |
| 21.1 | List of Subsidiaries* |

| Exhibit Number | Exhibit Description |
|---|---|
| 99.1 | Information Statement, dated July 11, 2005 |
| 99.2 | Form of Letter from the President and Chief Executive Officer of Liberty Media Corporation to holders of Liberty Media Corporation's common stock* |
| 99.3 | Form of Letter from the Chief Executive Officer and Chairman of the Board of the Registrant to holders of the Registrant's common stock* |

* Previously filed on June 27, 2005.

## SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 15, 2005

**DISCOVERY HOLDING COMPANY**

By: /s/ CHARLES Y. TANABE

Name: Charles Y. Tanabe
Title: Senior Vice President

## EXHIBIT INDEX

| Exhibit Number | Exhibit Description |
|---|---|
| 2.1 | Form of Reorganization Agreement among Liberty Media Corporation, the Registrant and Ascent Media Group, Inc.* |
| 3.1 | Form of Restated Certificate of Incorporation of the Registrant to be in effect at the time of the spin off |
| 3.2 | Form of Bylaws of the Registrant to be in effect at the time of the spin off |
| 4.1 | Specimen Certificate for shares of the Series A common stock, par value $.01 per share, of the Registrant* |
| 4.2 | Specimen Certificate for shares of the Series B common stock, par value $.01 per share, of the Registrant* |
| 4.3 | Form of Rights Agreement between the Registrant and EquiServe Trust Company, N.A., as Rights Agent* |
| 10.1 | The Shareholders Agreement, dated as of November 30, 1991 (the "Stockholders' Agreement"), by and among Discovery Communications, Inc. ("Discovery"), Cox Discovery, Inc. ("Cox"), NewChannels TDC Investments, Inc. ("NewChannels"), TCI Cable Education, Inc. ("TCID") and John S. Hendricks ("Hendricks")* |
| 10.2 | First Amendment to the Stockholders' Agreement, dated as of December 20, 1996, by and among Discovery, Cox Communications Holdings, Inc. (the successor to Cox), Newhouse Broadcasting Corporation (the successor to NewChannels), TCID, Hendricks and for the purposes stated therein only, LMC Animal Planet, Inc. ("LMC") and Liberty Media Corporation, a Colorado corporation ("Liberty")* |
| 10.3 | Second Amendment to the Stockholders' Agreement, dated as of September 7, 2000, by and among Discovery, Cox Communications Holdings, Inc. (the successor to Cox), Advance/Newhouse Programming Partnership (the successor to NewChannels), LMC Discovery, Inc. (formerly known as TCID) and Hendricks* |
| 10.4 | Third Amendment to the Stockholders' Agreement, dated as of September, 2001, by and among Discovery, Cox, NewChannels, TCID, Hendricks and Advance Programming Holdings Corp.* |
| 10.5 | Fourth Amendment to the Stockholders' Agreement, dated as of June 23, 2003, by and among Discovery, Cox, NewChannels, TCID, Liberty Animal, Inc. (the successor in interest to LMC) for the purposes stated in the First *Amendment* to the Stockholders' Agreement, and Hendricks* |
| 10.6 | Form of Tax Sharing Agreement between Liberty Media Corporation and the Registrant* |
| 10.7 | Discovery Holding Company 2005 Incentive Plan* |
| 10.8 | Discovery Holding Company 2005 Non-Employee Director Plan |
| 10.9 | Form of Discovery Holding Company Transitional Stock Adjustment Plan |
| 10.10 | Form of Agreement between the Registrant and John C. Malone* |
| 10.11 | Agreement, dated June 24, 2005, between Discovery and the Registrant* |
| 10.12 | Indemnification Agreement, dated as of June 24, 2005, between Cox and the Registrant* |
| 10.13 | Indemnification Agreement, dated as of June 24, 2005, between NewChannels and the Registrant* |
| 10.14 | Form of Indemnification Agreement with Directors and Executive Officers |
| 21.1 | List of Subsidiaries* |

| Exhibit Number | Exhibit Description |
| --- | --- |
| 99.1 | Information Statement, dated July 11, 2005 |
| 99.2 | Form of Letter from the President and Chief Executive Officer of Liberty Media Corporation to holders of Liberty Media Corporation's common stock* |
| 99.3 | Form of Letter from the Chief Executive Officer and Chairman of the Board of the Registrant to holders of the Registrant's common stock* |

* Previously filed on June 27, 2005.

INFORMATION STATEMENT

# DISCOVERY HOLDING COMPANY

12300 Liberty Boulevard
Englewood, Colorado 80112

We are currently a subsidiary of Liberty Media Corporation, which we refer to as "LMC." Our assets and businesses consist of 100% of Ascent Media Group, Inc. and LMC's 50% ownership interest in Discovery Communications, Inc. LMC has determined to spin off our company by distributing to LMC's shareholders, as a dividend, all of our common stock.

For each share of LMC Series A common stock or LMC Series B common stock held by you as of 5:00 p.m., New York City time, on July 15, 2005, the record date for the distribution, you will receive 0.10 of a share of the same series of our common stock. If as a result of the foregoing ratio you would be entitled to a fraction of a share of our common stock, you will receive cash in lieu of a fractional share interest. We expect the shares of our common stock to be distributed by LMC to you on or about July 21, 2005, which we refer to as the distribution date.

No vote of LMC's shareholders is required in connection with the spin off. No action is required of you to receive your shares of our common stock.

There is no current trading market for our common stock. We have applied to list our Series A common stock and Series B common stock on the Nasdaq National Market under the symbols "DISCA" and "DISCB," respectively, on the distribution date. On July 8, 2005, when-issued trading in our Series A common stock commenced on the OTC Bulletin Board under the symbol "DCHAV."

**In reviewing this information statement, you should carefully consider the matters described under the caption "Risk Factors" beginning on page 5.**

---



---

The date of this information statement is July 11, 2005.

## TABLE OF CONTENTS