

**Aggregated Option/SAR Exercises in the Last Fiscal Year and
Fiscal Year-End Option/SAR Values**

<u>Name</u>	<u>Shares Acquired on Exercise (#)</u>	<u>Value Realized (\$)</u>	<u>Number of Securities Underlying Unexercised Options/SARs at December 31, 2004 (#) Exercisable/ Unexercisable</u>	<u>Value of Unexercised In-the-Money Options/SARs at December 31, 2004 Exercisable/ Unexercisable (\$)</u>
John C. Malone				
Series A				
Exercisable	—	\$ —	4,125	\$ —
Unexercisable . . .	—	\$ —	—	\$ —
Series B				
Exercisable	—	\$ —	7,465,891	\$ —
Unexercisable . . .	—	\$ —	4,019,891	\$ —
Robert R. Bennett				
Series A				
Exercisable	—	\$ —	225,640	\$ 340,000
Unexercisable . . .	—	\$ —	1,800,000	\$3,890,000
Series B				
Exercisable	—	\$ —	10,841,904	\$ —
Unexercisable . . .	—	\$ —	5,837,949	\$ —
David J.A. Flowers				
Series A				
Exercisable	—	\$ —	999,961	\$ 68,000
Unexercisable . . .	—	\$ —	68,000	\$ 904,500
Albert E. Rosenthaler				
Series A				
Exercisable	—	\$ —	178,200	\$ 143,972
Unexercisable . . .	—	\$ —	834,600	\$1,149,416
Charles Y. Tanabe				
Series A				
Exercisable	—	\$ —	1,329,948	\$ 85,000
Unexercisable . . .	—	\$ —	1,114,204	\$ 909,250

Compensation of Directors

Each of our directors who is not an officer or employee of our company will be entitled to 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 our board of directors will be entitled to 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 our company will be entitled to a fee of \$1,000 for each committee meeting he attends. Fees to our directors will be payable in cash. In addition, we will reimburse members of our board for travel expenses incurred to attend any meetings of our board or any committee thereof.

Employment Contracts and Termination of Employment and Change in Control Arrangements

Except as described below, we will have no employment contracts, termination of employment agreements or change of control agreements with any of our named executive officers at the time of the spin off. Please see "Indemnification of Directors and Officers" for a description of certain arrangements between our company and its directors and officers regarding indemnification and exculpation of liability.

Lock-Up Agreement

The following is a summary of the terms of the lock-up agreement between our company and the Chairman of our board of directors, John C. Malone. This summary may not contain all of the information that is important to you. It is qualified in its entirety by reference to the full text of the lock-up agreement, a form of which is included as Exhibit 10.10 to the Form 10 registration statement of which this information statement is a part.

In connection with the spin off, our board of directors requested that John C. Malone enter into a lock-up agreement pursuant to which he would agree not to transfer shares of our Series B common stock or any options to purchase shares of our Series B common stock for a period of time after the spin off. Accordingly, prior to the distribution date, we will enter into an agreement with Dr. Malone, pursuant to which Dr. Malone will agree, subject to certain exceptions, not to transfer any shares of our Series B common stock or any options to purchase shares of our Series B common stock owned by him (whether acquired in connection with the spin off or later), or enter into any agreement to transfer the shares or options. These transfer restrictions are subject to a number of exceptions including:

- transfers to certain of Dr. Malone's family members or entities he or they control,
- transfers in connection with estate planning and charitable giving,
- transfers to us in connection with the exercise of options to purchase Series B common stock, and
- transfers to any entity that (i) has equity securities traded on a national securities exchange or market, (ii) Dr. Malone, his family members and entities he or they control collectively own, or after the permitted transfer would own, and have the right to vote, securities representing twenty percent or more of the outstanding voting power of the entity and (iii) no other person owns or has the right to vote securities of the entity representing a greater percentage of the outstanding voting power of the entity than Dr. Malone, his family members and the entities he or they control. We refer to the entities described in this bullet point as "Permitted Malone Transferees."

In connection with transfers pursuant to certain of these exceptions, the applicable transferee will be required to enter into an agreement with our company having similar restrictions as the lock-up agreement. In addition, Dr. Malone may convert shares of our Series B common stock into shares of our Series A common stock in accordance with our restated certificate of incorporation and he may pledge or grant a security interest in his shares or options in connection with a bona fide financing or hedging transaction so long as he retains the right to vote the shares and the pledgee, grantee or counter party in the transaction agrees to convert any shares of our Series B common stock it receives in the event of a default, foreclosure or other acquisition of Dr. Malone's shares or options into shares of our Series A common stock. The transfer restrictions will not apply to any transfer of shares or options in connection with a transaction pursuant to which a person (other than Dr. Malone, his family members, entities he or they control or a Permitted Malone Transferee) acquires beneficial ownership of fifty percent or more of the voting power of our outstanding capital stock so long as our board of directors has approved the transaction or in connection with the transaction the board or a court has

taken actions that would terminate or render ineffective our shareholder rights plan or redeem the rights issued under the plan. We refer to such a transaction as a “Company Control Transaction.”

The lock-up agreement will terminate upon the earliest to occur of the expiration of eighteen months after the date of the agreement, the death of Dr. Malone and the consummation of a Company Control Transaction.

Equity Compensation Plan Information

Discovery Holding Incentive Plan

General

The compensation committee is currently comprised of three members: Paul Gould, LaVoy Robison and J. David Wargo. As of the distribution date, each member will 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 has 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 incentive plan is designed to provide additional remuneration to certain employees and independent contractors for exceptional service and to encourage their investment in our company. The incentive plan is also intended to (1) attract persons of exceptional ability to become officers and employees of our company and (2) induce independent contractors to provide services to our company. Our employees (including employees who are officers or directors of our company or any of our subsidiaries) and independent contractors are eligible to participate and may be granted awards under the 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 our company or any of our affiliates.

The number of individuals who will receive awards under the incentive plan will vary from year to year and will depend on various factors, such as the number of promotions and our hiring needs during the year, and thus we cannot determine future award recipients.

The compensation committee may grant non-qualified stock options, stock appreciation rights (SARs), restricted shares, stock units, cash awards, performance awards or any combination of the foregoing under the incentive plan (collectively, awards). The maximum number of shares of any series of our common stock with respect to which awards may be issued under the incentive plan is 20 million. No person may be granted in any calendar year awards covering more than 2 million shares of our common stock. In addition, no person may receive payment for performance awards during any calendar year in excess of \$10 million.

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

The compensation committee also has the power to:

- interpret the incentive plan and adopt any rules, regulations and guidelines for carrying out the incentive plan that it believes are proper;
- correct any defect or supply any omission or reconcile any inconsistency in the incentive plan or related documents;

- determine the form and terms of the awards made under the incentive plan, including persons eligible to receive the award 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 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.*

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 incentive plan will be no less than the fair market value of the applicable series of our common stock as of the day the option is granted. The compensation committee determines, in connection with each option awarded to a holder, (1) the exercise price, (2) whether that price is payable in cash, by check, by promissory note, in whole shares of any series of our common stock, by the withholding of shares of our common stock issuable upon exercise of the option, by cashless exercise, or any combination of the foregoing, (3) other terms and conditions of exercise, (4) restrictions on transfer of the option and (5) other provisions not inconsistent with the incentive plan. Options granted under the 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 equal to the excess value of the stock (on the day the right is exercised) over the 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 will be no less than the fair market value of the applicable series of our common stock as of the day the free-standing SAR is granted. SARs granted under the 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 our common stock 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 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 such restricted shares will vest to the extent that the

restricted shares related thereto have vested, and any cash award to be received by the holder with respect to such restricted shares will become payable.

Stock Units

Shares of our common stock or units based upon the fair market value of our common stock may also be awarded under the 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, performance awards payable in cash may be *granted and any of the other above-described 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;
- earnings per share (actual or targeted growth);
- earnings before interest, taxes, depreciation and amortization;
- 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, 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 or divisions of our company or the applicable sector, or to our company 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 (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. Section 162(m) of the Code generally disallows deductions for compensation in excess of \$1 million for some executive officers unless the awards meet the requirements for being performance-based.

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 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 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.

Adjustments

The number and kind of shares of common stock which may be awarded, optioned or otherwise made subject to awards under the incentive plan, the number and kind 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) we subdivide our outstanding shares of any series of our common stock into a greater number of shares of such series of common stock, (2) we combine our outstanding shares of any series of 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 incentive plan)).

Amendment and Termination of the Incentive Plan

~~The compensation committee may terminate the incentive plan at any time prior to the tenth anniversary of the date on which the incentive plan became effective. The compensation committee may also suspend, discontinue, modify or amend the incentive plan any time prior to the tenth anniversary of the date on which the 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, unless the change is necessary to comply with section 409A of the Code. No awards can be made under the incentive plan after the tenth anniversary of the date on which the incentive plan became effective. The incentive plan became effective on May 3, 2005.

Discovery Holding Non-Employee Director Incentive Plan

The director plan is designed to encourage investment in our company by our non-employee directors and to more fully align their interests with the interests of our existing shareholders. The director plan is administered by the full board of directors. The board has the full power and authority to grant eligible non-employee directors the awards described below and determine the terms and conditions under which any awards are made, and may delegate certain administrative duties to our employees.

The board may grant non-qualified stock options, stock appreciation rights, restricted shares, stock units, any combination of the foregoing or cash under the director plan (collectively, awards). Only non-employee members of our board of directors are eligible to receive awards under the director plan. The maximum number of shares of any series of our common stock with respect to which awards may be issued under the director plan and which may be issued in lieu of director compensation under the director plan is 5 million. Shares of our common stock will be made available from either our authorized but unissued shares or shares that have been issued but reacquired by our company. Shares of our common stock that are subject to (1) any award that expires, terminates or is annulled for any reason without having been exercised and (2) any award of restricted shares or stock units that is forfeited prior to becoming vested, will once again be available for distribution under the director plan.

The board also reserves the power to:

- interpret the director plan and adopt any rules, regulations and guidelines for carrying out the director plan that it believes are proper;
- correct any defect or supply any omission or reconcile any inconsistency in the director plan or related documents;
- determine the form and terms of awards made under the director plan, including directors eligible to receive awards and the number of shares or other consideration subject to awards;
- provide that option exercises may be paid in cash, by check, in common stock, by cashless exercise, by broker-assisted exercise or any combination of the foregoing; and
- delegate to company employees certain administrative or ministerial duties in carrying out the purposes of the director plan.

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 director plan will be no less than the fair market value of the applicable series of our common stock as of the day the option is granted. The board determines, in connection with each option awarded to a holder, (1) the exercise price, (2) whether that price is payable in cash, by check, by promissory note, in whole shares of any series of our common stock, by the withholding of shares of our common stock issuable upon exercise of the option, by cashless exercise or any combination of the foregoing or other legal consideration, (3) other terms and conditions of exercise, (4) restrictions on transfer of the option and (5) other provisions not inconsistent with the director plan. Options granted under the director 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 equal to the excess value of the stock (on the day the right is exercised) over the 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 director (a free-standing SAR). Tandem SARs are exercisable only to the extent that the related option is exercisable. SARs are also generally non-transferable during the lifetime of a SAR holder, subject to prescribed exceptions. 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 will be no less than the fair market value of the applicable series of our common stock as of the day the free-standing SAR is granted. SARs granted under the director 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 our common stock 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 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 such restricted shares will vest to the extent that the restricted shares related thereto have vested, and any cash award to be received by the holder with respect to such restricted shares will become payable.

Stock Units

Shares of our common stock or units based upon the fair market value of our common stock may also be distributed as an award under the director plan. The board has the power to determine the terms, conditions, restrictions, vesting requirements and payment rules for awards of stock units.

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 director 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 director 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.

Adjustments

The number and kind of shares of common stock which may be awarded, optioned or otherwise made subject to awards under the director plan, the number and kind 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 board's discretion, as

the board deems equitable, in the event (1) we subdivide our outstanding shares of any series of our common stock into a greater number of shares of such series of common stock, (2) we combine our outstanding shares of any series of 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 director plan)).

Amendment and Termination of the Director Plan

The board of directors may terminate the director plan at any time prior to the tenth anniversary of the date on which the director plan became effective. The board may also suspend, discontinue, modify or amend the director plan any time prior to the tenth anniversary of the date on which the director plan became effective. However, before an amendment can be made that would adversely affect a non-employee director who has already been granted an award, the non-employee director's consent must be obtained, unless the change is necessary to comply with section 409A of the Code. No awards can be made under the director plan after the tenth anniversary of the date on which the director plan became effective. The director plan became effective on May 3, 2005.

U.S. Federal Income Tax Consequences

The following is a summary of the general rules of present U.S. federal income tax law relating to the tax treatment of non-qualified stock options, SARs, restricted shares, stock units and cash awards issued under the incentive plan and the director plan. The discussion is general in nature and does not take into account a number of considerations that may apply based upon the circumstances of a particular holder under the incentive plan and the director plan, including the possibility that a holder may not be subject to U.S. federal income taxation.

Non-Qualified Stock Options; SARs

Holders will not realize taxable income upon the grant of a non-qualified stock option or a SAR. Upon the exercise of a non-qualified stock option or a SAR, the holder will recognize ordinary income (subject to withholding, if applicable) in an amount equal to the excess of (1) the fair market value on the date of exercise of the shares received over (2) the exercise price (if any) he or she paid for the shares. The holder will generally have a tax basis in any shares of our common stock received pursuant to the exercise of a SAR, or pursuant to 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, we 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 holder under the foregoing rules. The disposition of the shares of our common stock acquired upon exercise of a non-qualified stock option will ordinarily result in capital gain or loss.

Under current rulings, if a holder transfers previously held shares in satisfaction of part or all of the exercise price of a non-qualified stock option, the holder will recognize income with respect to the shares received, but no additional gain will be recognized as a result of the transfer of such previously held shares in satisfaction of the non-qualified stock option exercise price. Moreover, that number of shares received upon exercise that equals the number of previously held shares surrendered in satisfaction of the non-qualified stock option will have a tax basis that equals, and a holding period that includes, the tax basis and holding period of the previously held shares surrendered in satisfaction of the non-qualified stock option exercise price. Any additional shares received upon exercise will have a tax basis that equals the amount of cash (if any) paid by the holder, plus the amount of ordinary income recognized by the holder with respect to the shares received.

Cash Awards; Stock Units; Restricted Shares

A holder 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 holder to draw upon it. A holder will not have taxable income upon the grant of a stock unit but rather will generally recognize ordinary compensation income at the time the holder receives cash in satisfaction of such stock unit or shares of common stock in satisfaction of such stock unit in an amount equal to the fair market value of the shares received.

Generally, a holder will not recognize taxable income upon the grant of restricted shares, and we will not be entitled to any federal income deduction upon the grant of such award. The value of the restricted shares will generally be taxable to the holder as compensation income in the year or years in which the restrictions on the shares of common stock lapse. Such value will equal the fair market value of the shares on the date or dates the restrictions terminate. A holder, however, may elect pursuant to Section 83(b) of the Code to treat the fair market value of the shares subject to the restricted share award on the date of such grant as compensation income in the year of the grant of the restricted share award. The holder must make such an election pursuant to Section 83(b) of the Code within 30 days after the date of grant. If such an election is made and the holder later forfeits the restricted shares to us, the holder will not be allowed to deduct, at a later date, the amount such holder had earlier included as compensation income.

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

Subject to the discussion under "*Certain Tax Code Limitations on Deductibility*" below, we 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 holder under the foregoing rules.

Section 409A

Awards under our incentive plans have features that could cause them to be treated as deferred compensation arrangements. The AJCA significantly alters the tax law relating to nonqualified deferred compensation arrangements, through the adoption of the new section 409A of the Code, and imposes significant penalties for noncompliance. Specifically, if a deferred compensation arrangement does not comply with section 409A, deferred amounts will be taxed currently at the employee's marginal rate, interest will be assessed at the underpayment rate established by the IRS plus one percent, measured from the later of the deferral date or the vesting date, and a penalty will be assessed equal to 20% of the taxable amount of compensation. The IRS is expected to promulgate additional regulations and guidelines for employers seeking to comply with new Code section 409A, but such regulations and guidelines are still evolving. *The incentive plan and the director plan will be administered in a manner that is in good faith compliance with section 409A and applicable regulations.*

We intend that any awards under the incentive plan and the director plan satisfy the applicable requirements of section 409A. ~~If any plan provision or award would result in the imposition of an additional tax under section 409A, such plan provision or award will be amended to avoid imposition of the additional tax. No action taken to comply with section 409A will be deemed to adversely affect the employee's rights under any award.~~

Certain Tax Code Limitations on Deductibility

In order for us to deduct the amounts described above, such amounts must constitute reasonable compensation for services rendered or to be rendered and must be ordinary and necessary business expenses. Our ability to obtain a deduction for future payments under the incentive plan could also be limited by Section 280G of the Code, which provides that certain excess parachute payments made in connection with a change of control of an employer are not deductible. Our ability to obtain a deduction for amounts paid under the incentive plan could also be affected by Section 162(m) of the Code, which limits the deductibility, for U.S. federal income tax purposes, of compensation paid to certain employees to \$1 million during any taxable year. However, certain exceptions apply to this limitation in the case of performance-based compensation. It is intended that the incentive plan will satisfy certain of the requirements for the performance-based exception and that we will be able to comply with the requirements of the Code and Treasury Regulation Section 1.162-27 with respect to the grant and payment of certain performance-based awards (including certain options and stock appreciation rights) under the incentive plan so as to be eligible for the performance-based exception. However, it may not be possible in all cases to satisfy all of the requirements for the exception and we may, in our sole discretion, determine that in one or more cases it is in our best interests not to satisfy the requirements for the performance-based exception. The incentive plan will be administered by the compensation committee of our board of directors and the incentive plan and the director plan will each be submitted for shareholder approval at our 2006 annual meeting of shareholders.

Security Ownership of Certain Beneficial Owners

The following table sets forth information, to the extent known by us or ascertainable from public filings, concerning shares of LMC's common stock beneficially owned by each person or entity (excluding any of our directors and any of our executive officers) known by us to own more than five percent of the outstanding shares of LMC's common stock. The percentage of LMC common stock beneficially owned by each person or entity reflects the percentage of our common stock that would have been beneficially owned by such persons on April 29, 2005, had the record date for the spin off occurred on that date.

The percentage ownership information is based upon 2,679,967,732 shares of LMC Series A common stock and 121,062,825 shares of LMC Series B common stock outstanding as of April 29, 2005.

<u>Name and Address of Beneficial Owner</u>	<u>Series of Stock</u>	<u>Number of Shares</u> (in thousands)	<u>Percent of Class</u>	<u>Voting Power</u>
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	Series A	141,455*	5.3%	3.6%
Citigroup Global Markets Holdings Inc. 388 Greenwich Street New York, NY 10013	Series A	135,892**	5.1%	3.5%
Citigroup Inc. 399 Park Avenue New York, NY 10043	Series A	145,024**	5.4%	3.7%

* The number of shares of common stock in the table is based upon the Schedule 13G dated December 31, 2004, filed by Capital Research and Management Company with respect to LMC

Series A common stock. Capital Research, an investment advisor, is the beneficial owner of 141,454,800 shares of LMC Series A common stock, as a result of acting as investment advisor to various investments companies, but disclaims beneficial ownership pursuant to Rule 13d-4. The Schedule 13G reflects that Capital Research has no voting power over and sole dispositive power over these shares.

** This number of shares of common stock is based upon the Schedule 13G dated December 31, 2004, filed jointly by Citigroup Global Markets Holdings, Inc. and Citigroup Inc. with respect to LMC Series A common stock. Citigroup Global is the beneficial owner of 135,892,163 shares of LMC Series A common stock and Citigroup is the beneficial owner of 145,023,975 shares of LMC Series A common stock. The number of shares owned by Citigroup Global includes certain shares as to which beneficial ownership is disclaimed. The number of shares owned by Citigroup includes the shares beneficially owned by Citigroup Global and certain shares as to which beneficial ownership is disclaimed.

Security Ownership of Management

The following table sets forth information with respect to the ownership by each director and each of our named executive officers and by all of our directors and executive officers as a group of shares of LMC Series A common stock and LMC Series B common stock, as of April 29, 2005. The percentage of LMC common stock beneficially owned by each named executive officer and by all of our directors and executive officers as a group reflects the percentage of our common stock that would have been beneficially owned by such persons on April 29, 2005, had the record date for the spin off occurred on that date.

The security ownership information is given as of April 29, 2005 and, in the case of percentage ownership information, is based upon 2,679,967,732 shares of LMC Series A common stock and 121,062,825 shares of LMC Series B common stock outstanding on that 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 April 29, 2005, 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 LMC Series B common stock, though convertible on a one-for-one basis into shares of LMC Series A common stock, is reported as beneficial ownership of LMC Series B common stock only, and not as beneficial ownership of LMC Series A common stock. So far as is known to us, 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	LMC Series A	15,817(1)(2)(3)(4)	*	29.7%
	LMC Series B	116,671(1)(4)(5)	89.4%	
Robert R. Bennett	LMC Series A	4,007(6)(7)(8)	*	3.5%
	LMC Series B	13,761(7)(8)	10.2%	
Paul A. Gould	LMC Series A	1,707(9)	*	*
	LMC Series B	600		
M. LaVoy Robison	LMC Series A	26(10)	*	*
	LMC Series B	0		
J. David Wargo	LMC Series A	168(11)(12)	*	*
	LMC Series B	0		
David J.A. Flowers	LMC Series A	1,681(13)(14)(15)	*	*
	LMC Series B	0		
Albert E. Rosenthaler	LMC Series A	313(16)(17)	*	*
	LMC Series B	0		
Charles Y. Tanabe	LMC Series A	1,971(18)(19)(20)	*	*
	LMC Series B	0		
All directors and executive officers as a group (9 persons)	LMC Series A	26,022(3)(8)(12)(15)(21)(22)(23)	1.0%	32.4%
	LMC Series B	131,032(5)(8)(22)(23)	90.8%	

* Less than one percent

- (1) Includes 1,505,043 shares of LMC Series A common stock and 3,409,436 shares of LMC Series B common stock held by Dr. Malone's wife, Mrs. Leslie Malone, as to which shares Dr. Malone has disclaimed beneficial ownership.
- (2) Includes 766,203 shares of LMC Series A common stock held by the Liberty 401(k) Savings Plan.
- (3) Includes 3,300 shares of LMC Series A common stock held by a trust with respect to which Dr. Malone is the sole trustee and, with his wife, retains a unitrust interest in the trust.
- (4) Includes beneficial ownership of 4,125 shares of LMC Series A common stock and 9,475,457 shares of LMC Series B common stock, which may be acquired within 60 days after April 29, 2005 pursuant to stock options. Dr. Malone has the right to convert the options to purchase shares of LMC Series B common stock into options to purchase shares of LMC Series A common stock.
- (5) In February 1998, in connection with the settlement of certain legal proceedings relative to the Estate of Bob Magness, the late founder and former Chairman of the Board of LMC's former parent company, TCI, TCI entered into a call agreement with Dr. Malone and Dr. Malone's wife and a call agreement with the Magness Group. In connection with AT&T's acquisition of TCI, TCI assigned to LMC its rights under these call agreements. As a result, LMC has the right, under certain circumstances, to acquire shares of LMC Series B common stock owned by the Malones. The call agreement also prohibits the Malones from disposing of their shares of LMC Series B common stock, except for certain exempt transfers (such as transfers to related parties or to the other group or public sales of up to an aggregate of 5% of their shares of LMC Series B common

stock after conversion to shares of LMC Series A common stock) and except for a transfer made in compliance with LMC's call rights. The call agreement does not apply to any shares of our common stock that the Malones acquire in the spin off or otherwise.

- (6) Includes 29,904 shares of LMC Series A common stock held by the Liberty 401(k) Savings Plan.
- (7) Includes beneficial ownership of 225,640 shares of LMC Series A common stock and 13,760,879 shares of LMC Series B common stock, which may be acquired within 60 days after April 29, 2005 pursuant to stock options. Mr. Bennett has the right to convert the options to purchase shares of LMC Series B common stock into options to purchase shares of LMC Series A common stock.
- (8) Includes 1,246,596 shares of LMC Series A common stock and 400 shares of LMC Series B common stock owned by Hilltop Investments, Inc., which is jointly owned by Mr. Bennett and his wife, Mrs. Deborah Bennett.
- (9) Includes beneficial ownership of 30,750 shares of LMC Series A common stock, which may be acquired within 60 days after April 29, 2005 pursuant to stock options and stock appreciation rights.
- (10) Includes beneficial ownership of 22,000 shares of LMC Series A common stock, which may be acquired within 60 days of April 29, 2005 pursuant to stock appreciation rights.
- (11) Includes beneficial ownership of 8,750 shares of LMC Series A common stock, which may be acquired within 60 days after April 29, 2005 pursuant to stock appreciation rights.
- (12) Includes 157,873 shares of LMC Series a common stock held in various accounts managed by Mr. Wargo, as to which shares Mr. Wargo has disclaimed beneficial ownership.
- (13) Includes 13,338 shares of LMC Series A common stock held by the Liberty 401(k) Savings Plan.
- (14) Includes beneficial ownership of 1,258,413 shares of LMC Series A common stock, which may be acquired within 60 days after April 29, 2005 pursuant to stock options and stock appreciation rights.
- (15) Includes 27,000 shares of LMC Series A common stock owned by AIKD Investment, Inc., which is solely owned by Mr. Flowers.
- (16) Includes 6,168 shares of LMC Series A common stock held by the Liberty 401(k) Savings Plan.
- (17) Includes beneficial ownership of 306,400 shares of LMC Series A common stock, which may be acquired within 60 days after April 29, 2005 pursuant to stock options and stock appreciation rights.
- (18) Includes 7,573 shares of LMC Series A common stock held by the Liberty 401(k) Savings Plan.
- (19) Includes 3,068 shares of LMC Series A common stock held by Mr. Tanabe's wife, Arlene Bobrow, as to which shares Mr. Tanabe has disclaimed beneficial ownership.
- (20) Includes beneficial ownership of 1,674,550 shares of LMC Series A common stock, which may be acquired within 60 days of April 29, 2005 pursuant to stock options.
- (21) Includes 830,682 shares of LMC Series A common stock held by the Liberty 401(k) Savings Plan.
- (22) Includes 1,508,111 shares of LMC Series A common stock and 3,409,436 shares of LMC 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.
- (23) Includes beneficial ownership of 3,826,566 shares of LMC Series A common stock and 23,236,336 shares of LMC Series B common stock, which may be acquired within 60 days after April 29, 2005 pursuant to stock options and stock appreciation rights. The options to purchase shares of LMC Series B common stock may be converted, at the option of the holder, into options to purchase shares of LMC Series A common stock.

CERTAIN INTER-COMPANY AGREEMENTS

Agreements with LMC

Following the spin off, our company and LMC will operate independently, and neither will have any ownership interest in the other. In order to govern certain of the ongoing relationships between our company and LMC after the spin off and to provide mechanisms for an orderly transition, we and LMC are entering into certain agreements pursuant to which we will obtain services from LMC, and we and LMC will indemnify each other against certain liabilities arising from our respective businesses. The following is a summary of the terms of the material agreements we are entering into with LMC.

Reorganization Agreement

Prior to the record date, we will enter into a reorganization agreement with LMC and Ascent Media to provide for, among other things, the principal corporate transactions required to effect the spin off, certain conditions to the spin off and provisions governing the relationship between our company and LMC with respect to and resulting from the spin off.

The reorganization agreement will provide that, on or prior to the record date, LMC will transfer to us, or cause its other subsidiaries to transfer to us, all of the interests in Ascent Media and LMC's 50% ownership interest in Discovery Communications. The reorganization agreement will also provide for mutual indemnification obligations, which are designed to make our company financially responsible for substantially all liabilities that may exist relating to the business of Ascent Media and LMC's ownership interest in Discovery prior to the spin off, as well as for all liabilities incurred by our company after the spin off, and to make LMC financially responsible for all potential liabilities of our company which are not related to our businesses, including, for example, any liabilities arising as a result of our company having been a subsidiary of LMC.

In addition, the reorganization agreement will provide for each of our company and LMC to preserve the confidentiality of all confidential or proprietary information of the other party for three years following the spin off, subject to customary exceptions, including disclosures required by law, court order or government regulation.

The reorganization agreement may be terminated, and the spin off may be abandoned, at any time prior to the date of the spin off, by and in the sole discretion of the LMC board of directors, without the approval of LMC's shareholders or anyone else. In such event, LMC will have no liability to any person under the reorganization agreement or any obligation to effect the spin off.

This summary is qualified by reference to the full text of the reorganization agreement, a form of which has been filed as an exhibit to the Form 10 registration statement of which this information statement is a part.

Services Agreement

On or before the date of the spin off, we will enter into a services agreement with LMC, pursuant to which, following the spin off, LMC will provide us with specified services and benefits, including:

- (1) shared office space, including furniture, furnishings and building services, at LMC's executive headquarters;
- (2) technical assistance (including management information systems, network maintenance and data storage), computers, office supplies, postage, courier service and other office services;
- (3) insurance administration and risk management services;
- (4) other services typically performed by LMC's treasury, legal, investor relations, tax and accounting personnel; and

- (5) such other services as we and LMC may from time to time mutually determine to be necessary or desirable.

We will make payments to LMC under the services agreement based upon a portion of LMC's personnel costs (taking into account wages and benefits) of the LMC officers and employees who are expected to provide services to us, including the executive officers of LMC who will also act as our executive officers. These personnel costs will be based upon the anticipated percentages of time to be spent by LMC personnel performing services for us under the services agreement. We will also reimburse LMC for direct out-of-pocket costs incurred by LMC for third party services provided to us. We and LMC will evaluate all charges for reasonableness semi-annually and make any adjustments to these charges as we and LMC mutually agree upon. Based upon the current personnel costs of the affected LMC personnel and our anticipated percentage usage thereof, the fees payable to LMC for the first year of the services agreement are expected to be approximately \$1 million.

The services agreement will continue in effect until the close of business on December 31, 2005, and will be renewed automatically for successive one-year periods thereafter, unless earlier terminated (1) by us at any time on at least 30 days' prior written notice, (2) by LMC at the end of the initial term or any renewal term, upon at least 180 days' prior notice, (3) by LMC upon written notice to our company, following certain changes in control of our company or our company being the subject of certain bankruptcy or insolvency-related events or (4) by us upon written notice to LMC, following certain changes in control of LMC or LMC being the subject of certain bankruptcy or insolvency-related events.

Tax Sharing Agreement

On or before the date of the spin off, we will enter into a tax sharing agreement with LMC that governs LMC's and our respective rights, responsibilities and obligations with respect to taxes and tax benefits, the filing of tax returns, the control of audits and other tax matters. References in this summary description of the tax sharing agreement to the terms "tax" or "taxes" mean taxes as well as any interest, penalties, additions to tax or additional amounts in respect of such taxes.

We and our eligible subsidiaries currently join with LMC in the filing of a consolidated return for U.S. federal income tax purposes and also join with LMC in the filing of certain consolidated, combined, and unitary returns for state, local, and foreign tax purposes. However, for periods (or portions thereof) beginning after the spin off, we will not join with LMC in the filing of any federal, state, local or foreign consolidated, combined or unitary tax returns.

Under the tax sharing agreement, except as described below, LMC will be responsible for all U.S. federal, state, local and foreign income taxes reported on a consolidated, combined or unitary return that includes us or one of our subsidiaries, on the one hand, and LMC or one of its subsidiaries (other than us or any of our subsidiaries), on the other hand. In addition, LMC will indemnify us and our subsidiaries against any liabilities arising under its tax sharing agreement with AT&T Corp. We will be responsible for all other taxes (including income taxes not reported on a consolidated, combined, or unitary return by LMC or its subsidiaries) that are attributable to us or one of our subsidiaries, whether accruing before, on or after the spin off. We will have no obligation to reimburse LMC for the use, in any period following the spin off, of a tax benefit created before the spin off, regardless of whether such benefit arose with respect to taxes reported on a consolidated, combined or unitary basis.

Notwithstanding the tax sharing agreement, under U.S. Treasury Regulations, each member of a consolidated group is severally liable for the U.S. federal income tax liability of each other member of the consolidated group. Accordingly, with respect to periods in which we (or our subsidiaries) have been included in LMC's, AT&T Corp.'s or Tele-Communications, Inc.'s consolidated group, we (or our subsidiaries) could be liable to the U.S. government for any U.S. federal income tax liability incurred, but not discharged, by any other member of such consolidated group. However, if any such liability

were imposed, we would generally be entitled to be indemnified by LMC for tax liabilities allocated to LMC under the tax sharing agreement.

Our ability to obtain a refund from a carryback of a tax benefit to a year in which we and LMC (or any of our respective subsidiaries) joined in the filing of a consolidated, combined or unitary return will be at the discretion of LMC. Moreover, any refund that we may obtain will be net of any increase in taxes resulting from the carryback for which LMC is otherwise liable under the tax sharing agreement.

To the extent permitted by applicable tax law, we and LMC will treat any payments made under the tax sharing agreement as a capital contribution or distribution (as applicable) immediately prior to the spin off, and accordingly, as not includible in the taxable income of the recipient. However, if any payment causes, directly or indirectly, an increase in the taxable income of the recipient (or its affiliates), the payor's payment obligation will be grossed up to take into account the deemed taxes owed by the recipient (or its affiliates).

We will be responsible for preparing and filing all tax returns that include us or one of our subsidiaries other than any consolidated, combined or unitary income tax return that includes us or one of our subsidiaries, on the one hand, and LMC or one of its subsidiaries (other than us or any of our subsidiaries), on the other hand, and we will have the authority to respond to and conduct all tax proceedings, including tax audits, involving any taxes or any deemed adjustment to taxes reported on such tax returns. LMC will be responsible for preparing and filing all consolidated, combined or unitary income tax returns that include us or one of our subsidiaries, on the one hand, and LMC or one of its subsidiaries (other than us or any of our subsidiaries), on the other hand, and LMC will have the authority to respond to and conduct all tax proceedings, including tax audits, relating to taxes or any deemed adjustment to taxes reported on such tax returns. LMC will also have the authority to respond to and conduct all tax proceedings relating to any liability arising under its tax sharing agreement with AT&T Corp. We will be entitled to participate in any tax proceeding involving any taxes or deemed adjustment to taxes for which we are liable under the tax sharing agreement. The tax sharing agreement further provides for cooperation between LMC and our company with respect to tax matters, the exchange of information and the retention of records that may affect the tax liabilities of the parties to the agreement.

Finally, the tax sharing agreement requires that neither we nor any of our subsidiaries will take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the spin off from qualifying as a tax-free transaction to LMC and to you under Sections 355 and 368(a)(1)(D) of the Code. Moreover, we must indemnify LMC and its subsidiaries, officers and directors for any loss, including any deemed adjustment to taxes of LMC, resulting from (1) such action or failure to act, (2) any agreement, understanding, arrangement or substantial negotiations entered into by us or any of our subsidiaries prior to the day after the first anniversary of the distribution date, with respect to any transaction pursuant to which any of Cox Communications, Advance/Newhouse or certain persons related to Cox Communications or Advance/Newhouse would acquire shares of, or other interests (including options) in our capital stock or (3) any action or failure to act by us or any of our subsidiaries following the completion of the spin off that would be inconsistent with, or otherwise cause any person to be in breach of, any representation or covenant made in connection with the tax opinion delivered to LMC by Skadden, Arps, Slate, Meagher & Flom LLP or the private letter ruling obtained by LMC from the IRS, in each case relating to, among other things, the qualification of the spin off as a tax-free transaction described under Sections 355 and 368(a)(1)(D) of the Code. See ~~"The Spin Off—Material U.S. Federal Income Tax Consequences of the Spin Off."~~ For purposes of the tax sharing agreement, the deemed adjustment to taxes generally will be an amount equal to the gain recognized by LMC multiplied by the highest applicable statutory rate for the applicable taxing jurisdiction, plus interest and any penalties.

This summary is qualified by reference to the full text of the tax sharing agreement, a form of which has been filed as an exhibit to the Form 10 registration statement of which this information statement is a part.

Information Agreement with Discovery

We have entered into an agreement with Discovery regarding the use by us of certain information regarding Discovery in connection with our financial reporting and disclosure requirements as a public company. We refer to this agreement as the Information Agreement.

The Information Agreement provides that Discovery will use commercially reasonable efforts:

- to provide us, on a timely basis, with
 - historical financial information regarding Discovery that we have identified as necessary for preparation of our annual and quarterly financial statements, and
 - additional financial and business information regarding Discovery, as reasonably necessary for us to comply with our reporting and disclosure obligations under applicable securities laws and stock market rules

for use and inclusion in our SEC filings, reports and other disclosure documents and related meetings and conference calls; and

- to make its officers and, subject to any applicable professional standards and practices, accountants, attorneys and other advisors reasonably available for consultations and discussions with us and our accountants, attorneys and other advisors regarding such information.

With respect to information provided to us other than the historical financial information specified in the agreement, the Information Agreement limits the public disclosure by us of certain non-public information regarding Discovery, including information the disclosure of which could reasonably be expected to have an adverse effect on Discovery that is material in any respect, and provides procedures for resolving issues regarding such information.

The Information Agreement provides that we will reimburse Discovery for the reasonable fees, costs and expenses incurred by Discovery to perform its obligations under the Information Agreement, to the extent such fees, costs and expenses exceed those that would otherwise have been incurred by Discovery in the ordinary course of business. The Information Agreement also provides that we will indemnify Discovery, its subsidiaries and their respective officers, directors, employees and agents from and against any losses incurred by them relating to any third-party claims or investigations related to Discovery's performance of its obligations under the Information Agreement or any disclosure by us of the information provided to us by Discovery pursuant to the Information Agreement (and will exculpate such persons from any liability to us relating thereto), other than any such losses and liabilities as may arise from the gross negligence, reckless conduct or willful misconduct of Discovery or any such indemnified person.

In addition, we have entered into separate agreements with Cox Communications and Advance/Newhouse, pursuant to which we have agreed to indemnify such parties, their affiliates, and their respective officers, directors, employees and agents, from and against any losses incurred by them relating to any third-party claims related to Discovery's performance of its obligations under the Information Agreement or any disclosure by us of the information provided to us by Discovery pursuant to the Information Agreement (and will exculpate such persons from any liability to us relating thereto), other than any such losses and liabilities as may arise from the willful misconduct of, or any purchase or sale of our securities by, Cox Communications or Advance/Newhouse, as applicable, or any of such party's officers, directors, employees and agents.

The foregoing summaries of the Information Agreement and of the indemnification agreements between us and each of Cox Communications and *Advance/Newhouse* are qualified by reference to the full texts of such agreements, each of which is filed as an exhibit to the Form 10 registration statement of which this information statement is a part.

Termination of Tax Agreement between Ascent Media and LMC

Prior to the *spin off*, LMC and Ascent Media will enter into an agreement pursuant to which their existing tax allocation and indemnification agreement will be terminated and each of LMC and Ascent Media shall be released from all liabilities and obligations under such agreement.

Services Agreement between Ascent Media and On Command Corporation

Since October 1, 2002, Ascent Media has provided uplink and satellite transport services to On Command Corporation, a wholly owned subsidiary of LMC. Under the terms of a short-term services agreement and, later a content preparation and distribution services agreement, from October 1, 2002 through March 31, 2008, Ascent Media has provided, and will continue to provide, uplink and satellite transport services. The content preparation and distribution agreement also provides that Ascent Media may supply content preparation services. During the period from April 2003 to October 2004, Ascent Media also installed satellite equipment at On Command's downlink sites at hotels pursuant to a separate services agreement. As of December 31, 2004, Ascent Media charged On Command approximately \$1,215,000 for services rendered under all agreements. All agreements were entered into in the ordinary course of business on arm's-length terms.

HyperTV with Livewire

A subsidiary of Ascent Media is party to a joint venture and related long-term, non-exclusive agreement with HyperTV Networks, Inc., an indirect majority-controlled subsidiary of LMC, to jointly market a process for synchronizing web content and video programming. During the last three fiscal years, the joint venture has not generated any significant revenue.

Arrangements between Discovery and Ascent Media

Discovery is a customer of Ascent Media and certain Discovery subsidiaries are parties to vendor agreements with Ascent Media. Such agreements and arrangements were entered into in the ordinary course of business on arm's-length terms. In that connection, Ascent Media's facilities in Singapore provide uplink and origination and other network services for Discovery's channels in Asia and Ascent Media's facilities in London provide uplink and origination and other network services for Discovery channels in the U.K. In addition, a subsidiary of Ascent Media provided certain integration services to Discovery in the U.S. during 2004. In 2004, Discovery and its subsidiaries were, collectively Ascent Media's third largest customer, generating \$39,717,000 in sales (or 6% of Ascent Media's 2004 total revenue).

DESCRIPTION OF OUR CAPITAL STOCK

The following information reflects our restated certificate of incorporation and bylaws as these documents will be in effect at the time of the spin off.

Authorized Capital Stock

Our authorized capital stock consists of one billion three hundred million (1,300,000,000) shares, of which one billion two hundred fifty million (1,250,000,000) shares are designated common stock, par value \$0.01 per share, and fifty million (50,000,000) shares are designated preferred stock, par value \$0.01 per share. Our common stock is divided into three series. We have authorized six hundred million (600,000,000) shares of Series A common stock, fifty million (50,000,000) shares of Series B common stock, and six hundred million (600,000,000) shares of Series C common stock.

Immediately following the spin off, we expect to have approximately 267,895,000 shares of our Series A common stock and approximately 12,106,000 shares of our Series B common stock outstanding, based upon the number of shares of LMC Series A common stock and Series B common stock outstanding on March 31, 2005. No shares of our Series C common stock or preferred stock will be outstanding immediately following the spin off.

Our Common Stock

The holders of our 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 our Series A common stock will be entitled to one vote for each share held, and the holders of our Series B common stock will be entitled to ten votes for each share held, on all matters voted on by our shareholders, including elections of directors. The holders of our Series C common stock will not be entitled to any voting powers, except as required by Delaware law. When the vote or consent of holders of our Series C common stock is required by Delaware law, the holders of our Series C common stock will be entitled to 1/100th of a vote for each share held. Our charter does not provide for cumulative voting in the election of directors.

Dividends; Liquidation

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

Conversion

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

Distributions

Subject to the exception provided below, distributions made in shares of our Series A common stock, our Series B common stock, our Series C common stock or any other security with respect to

our Series A common stock, our Series B common stock or our Series C common stock may be declared and paid only as follows:

- a share distribution (1) consisting of shares of our Series A common stock (or securities convertible therefor) to holders of our Series A common stock, Series B common stock and Series C common stock, on an equal per share basis; or (2) consisting of shares of our Series B common stock (or securities convertible therefor) to holders of our Series A common stock, Series B common stock and Series C common stock, on an equal per share basis; or (3) consisting of shares of our Series C common stock (or securities convertible therefor) to holders of our Series A common stock, Series B common stock and Series C common stock, on an equal per share basis; or (4) consisting of shares of our Series A common stock (or securities convertible therefor) to holders of our Series A common stock and, on an equal per share basis, shares of our Series B common stock (or securities convertible therefor) to holders of our Series B common stock and, on an equal per share basis, shares of our Series C common stock (or securities convertible thereof) to holders of our Series C common stock; and
- a share distribution consisting of any class or series of securities of our company or any other person, other than our 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 our 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 our 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 our common stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of our 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 provisions, with the holders of shares of Series B common stock receiving securities of the class or series having the highest relative voting rights and the holders of shares of each other series of our common stock receiving securities of the class or series having lesser relative voting rights, and *provided further* that, if different classes or series of securities are being distributed to holders of our Series A common stock and Series C common stock, then such securities shall be distributed either as determined by our board of directors or such that the relative voting rights of the securities of the class or series of securities to be received by the holders of our Series A common stock and Series C common stock corresponds, to the extent practicable, to the relative voting rights of each such series of our common stock, and *provided further* that, in each case, the distribution is otherwise made on a equal per share basis.

In addition, no share distribution of voting stock may be declared or paid if the securities (or securities convertible therefor) to be received by the holders of our Series B common stock consist of securities (or securities convertible therefor) having a per share voting power of less than ten times the per share voting power of the securities (or securities convertible therefor) received in such distribution by holders of our Series A and Series C common stock, unless such share distribution has been consented to by at least 75% of the outstanding shares of Series B common stock, voting as a separate class (who may for this purpose act by written consent).

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

Any amendment of our restated certificate of incorporation which has the effect of reclassifying or recapitalizing our common stock in a manner which results in the holders of our Series B common stock receiving or holding securities having per share voting power of less than ten times the per share voting power of any other class or series of common stock having general voting rights will, in addition

to any other approval requirements necessary to amend our restated certificate of incorporation, also require the consent of the holders of at least 75% of the shares of Series B common stock outstanding (who may for this purpose act by written consent).

In addition, any amendment to our restated certificate of incorporation which amends or changes the foregoing distribution provisions will also require the consent of the holders of 75% of the shares of Series B common stock outstanding (who may act for this purpose by written consent).

Liquidation and Dissolution

In the event of our liquidation, dissolution and winding up, after payment or provision for payment of our debts and liabilities and subject to the prior payment in full of any preferential amounts to which our preferred stock holders may be entitled, the holders of our Series A common stock, Series B common stock and Series C common stock will share equally, on a share for share basis, in our assets remaining for distribution to the holders of our common stock.

Our Preferred Stock

Our restated certificate of incorporation authorizes our board of directors to establish one or more series of our preferred stock and to determine, with respect to any series of our 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 our 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 shall be cumulative;
- the rights of the series in the event of our voluntary or involuntary liquidation, dissolution or winding up;
- 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 our 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.

We believe that the ability of our board of directors to issue one or more series of our preferred stock will provide us with flexibility in structuring possible future financings and acquisitions, and in meeting other corporate needs that might arise. The authorized shares of our preferred stock, as well as shares of our common stock, will be available for issuance without further action by our shareholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. If the approval of our shareholders is not required for the issuance of shares of our preferred stock or our common stock our board may determine not to seek shareholder approval.

Three series of preferred stock have been authorized in connection with our Shareholder Rights Plan described below. In addition, although our board of directors has no intention at the present time of doing so, it could in the future issue an additional series of our preferred stock that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt. Our board of directors will make any determination to issue such shares based upon its judgment as to the best interests of our company and our shareholders. Our board of directors, in

so acting, could issue our preferred stock having terms that could discourage an acquisition attempt through which an acquirer may be able to change the composition of our board of directors, including a tender offer or other transaction that some, or a majority, of our shareholders might believe to be in their best interests or in which shareholders might receive a premium for their stock over the then-current market price of the stock.

Shareholder Rights Plan

Our board of directors has approved the adoption of a shareholder rights plan that will include the following terms and provisions. Accordingly, the distribution of our common stock to LMC stockholders of record on the record date for the spin off will include:

- one preferred share purchase right (which we refer to as a “Series A right”) for each outstanding share of our Series A common stock, which Series A right will entitle the registered holder to purchase from us one one-thousandth of a share of our 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 one-thousandth of a share, subject to adjustment; and
- one preferred share purchase right (which we refer to as a “Series B right”) for each outstanding share of our Series B common stock, 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 one-thousandth of a share, subject to adjustment.

In the event that we issue shares of our Series C common stock, such shares will include 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 Series C common stock issued, 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 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 EquiServe Trust Company, N.A., as Rights Agent a form of which has been filed as an exhibit to the Form 10 of which this information statement is a part. The following description of the rights is qualified in its entirety by reference to the Rights Agreement.

Separation and Distribution of Rights; Exercisability. The Series A rights will be attached to all certificates (or, in the case of uncertificated shares, all book-entry notations) representing shares of our Series A common stock then outstanding, the Series B rights will be attached to all Series B certificates (or, in the case of uncertificated shares, all book-entry notations) representing shares of our Series B common stock then outstanding and the Series C rights will be attached to all Series C certificates (or, in the case of uncertificated shares, all book-entry notations) representing shares of Series C Stock, if and when such shares are issued, and no separate rights certificates will be distributed with respect to any of the rights at such time. The rights will separate from our common stock 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 become an “acquiring person;” and
- ~~10 business days (or such later date as may be determined by action of our 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.”

Except in certain situations, a person or group of affiliated or associated persons becomes an "acquiring person" upon acquiring beneficial ownership of our outstanding common stock representing in the aggregate ten percent or more of the shares of our 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. In addition, the stockholders of Discovery (other than our company or any of our subsidiaries), each affiliate or associate of any such stockholder, any other person that has any agreement, arrangement or understanding with any such stockholder (or with any affiliate or associate of any such stockholder) for the purpose of acquiring, holding, voting (subject to a limited exception) or disposing of any equity securities of Discovery, and each affiliate or associate of any such person, shall together constitute a "group" for purposes of the shareholder rights plan.

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 stock certificates or book-entry notation representing the Series A common stock, Series B common stock or Series C common stock to which they are attached. Until the rights distribution date (or earlier expiration of the rights), common 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 Series A common stock, Series B common stock or Series C common stock outstanding will also constitute the transfer of the rights associated with the shares of common stock represented by such certificate or book-entry notation. As soon as practicable following any occurrence of a rights distribution date, separate certificates evidencing the rights related to the applicable series of common stock (which we refer to as right certificates) will be mailed to holders of record of our common stock as of the close of business on the rights distribution date and 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 spin off, unless such date is advanced or extended or unless the rights are earlier redeemed or exchanged by us, in each case as described below.

Anti-dilution Adjustments. The applicable purchase price payable, the number of shares of the applicable series of junior preferred stock or other securities or property issuable upon the exercise of the rights, and the number of applicable rights outstanding are 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 are also subject to adjustment in the event of a stock dividend on, or a subdivision, combination or reclassification of the applicable series of common 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 (other than dividends payable in the related series of common stock) declared per share of our Series A common stock, Series B common stock or Series C common stock, as the case may be. In the event of our liquidation, dissolution or winding up, 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 our 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 our 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 our 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 and the value of the fractional share of Series B junior preferred stock purchasable upon exercise of each Series B right, should approximate the value of one share of our Series A common stock and Series B 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 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 Series B common stock, and if shares of Series C common stock are issued, 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 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, we are acquired in a merger or other business combination transaction or 50% or more of our 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 (other than rights beneficially owned by an acquiring person, which will 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 whom we have 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 the person or group of shares of our common stock representing, in the aggregate, 50% or more of our outstanding voting power, our board of directors may, without payment of the purchase price by the holder, 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 in some circumstances junior preferred stock) at an exchange ratio of one share of the corresponding series of common stock (or junior preferred stock of equivalent value) for each right, subject to adjustment.