- DCI is a global media and entertainment company with operations in over 170 countries across six continents. Therefore, the number of in-scope locations and controls could be substantial, which adds to the scale and difficulty of the implementation effort.

Based on the foregoing and assuming the Cox Transaction and the Potential Newhouse Transaction are completed in 2007, DHC is requesting permission from the Staff to exclude DCI from its Section 404 assessment for the year ended December 31, 2007.

Please do not hesitate to contact me with any questions at (720) 875-4333. Thank you for considering our request.

Sincerely,

Discovery Holding Company

/s/ Christopher W. Shean

Christopher W. Shean
Senior Vice President and Controller

Discovery Holding Company ("DHC")
Pro Forma Balance Sheet
December 31, 2006

	Historical DHC	Historical DCI	Pro forma adjustments for Cox Transaction (1)	Pro forma adjustments for Proposed Newhouse Transaction (2)	Pro forma DHC
			amounts in thousands		
Assets					
Current assets	317,362	970,636	(48,609)		1,239,389
Investment in Discovery Communications ("DCI")	3,129,157			(3,129,157)	0
Property and equipment, net	280,775	424,041	(6,474)		698,342
Content rights		1,253,553	(118,151)		1,135,402
Goodwill	2,074,789	365,266		7,643,815	10,083,870
Intangible and other assets, net	68,899	363,057	(189,412)		242,544
Total assets	5,870,982	3,376,553	(362,646)	4,514,658	13,399,547
Liabilities and Equity					
Current liabilities	121,887	734,524	(21,998)		834,413
Long-term debt		2,633,237	1,275,000		3,908,237
Deferred income tax liabilities	1,174,594	46,289			1,220,883
Other liabilities	25,237	128,966	(8,278)		145,925
Total liabilities	1,321,718	3,543,016	1,244,724		6,109,458
Minority interest		94,825			94,825
Equity	4,549,264	(261,288)	(1,607,370)	4,514,658	7,195,264
Total liabilities and equity	5,870,982	3,376,553	(362,646)	4,514,658	13,399,547

(1) Represents (a) book value of businesses exchanged by DCI for Cox interest in DCI, (b) issuance of debt by DCI and (c) retirement of DCI equity acquired from Cox. Exchange will be recorded by DCI at fair value. However, difference between fair value and book value is not significant for purposes of these pro formas.

(2) Includes (a) issuance of common stock by DHC for Newhouse interest in DCI, (b) elimination of DHC historical investment in DCI and (c) elimination of historical DCI equity. For simplicity reasons, all step-up has preliminarily been recorded as goodwill.

Discovery Holding Company ("DHC")
Pro Forma Statement of Operations
December 31, 2006

	Historical DHC	Historical DCI	Pro forma adjustments for Cox Transaction (1)	Pro forma adjustments for Proposed Newhouse Transaction (2)	Pro forma DHC
			amounts in thousands		
Revenue	688,087	3,012,988	(190,101)		3,510,974
Cost of services	(631,848)	(2,329,797)	160,059		(2,801,586)
Depreciation and amortization	(67,929)	(133,634)	3,629		(197,934)
Impairment of goodwill	(93,402)				(93,402)
Other operating expenses	(10,045)				(10,045)
Operating income (loss)	(115,137)	549,557	(26,413)		408,007
Interest expense		(194,227)	(89,229)		(283,456)
Share of earnings of DCI	103,588			(103,588)	0
Other income (expense)	9,481	28,634	166		38,281
Earnings (loss) before income tax expense	(2,068)	383,964	(115,476)	(103,588)	162,832
Income tax expense	(43,942)	(176,788)	53,119	41,435	(126,176)
Net earnings (loss)	(46,010)	207,176	(62,357)	(62,153)	36,656

(1) Represents (a) elimination of historical results of operations of businesses exchanged by DCI for Cox interest in DCI, (b) pro forma interest on debt issued by DCI in Cox Transaction, and (c) estimated tax effect of pro forma adjustments.

(2) Includes (a) elimination of historical DHC equity pickup for DHC and (b) estimated tax effect of pro forma adjustments.

FOR IMMEDIATE RELEASE: MAY 14, 2007

COX COMMUNICATIONS AND DISCOVERY COMMUNICATIONS COMPLETE EXCHANGE OF COX'S OWNERSHIP STAKE

Cox Now Owns Travel Channel and TravelChannel.com

ATLANTA, GA and SILVER SPRING, MD – Cox Communications, Inc. and Discovery Communications announced today that they have completed the exchange of Cox's 25% stake in Discovery for Travel Media, Inc., the company that owns Travel Channel and TravelChannel.com. Travel Media also holds approximately $1.3 billion in cash.

"We are excited to finalize the deal and to convert our ownership position in Discovery to such a strong operating asset as Travel Channel," said Cox Communications President Pat Esser. "We are enthusiastic about its tremendous growth prospects and opportunities to leverage its powerful content across the businesses and services of Cox Communications and our parent company, Cox Enterprises. Throughout our due diligence, we have gotten to know Pat Younge and his team at Travel Channel very well. We're impressed with their operations expertise and strategic vision for the business and look forward to working with them closely as they continue building its impressive ratings and content. This is a strong network for video distributors and a popular one among viewers, and we're committed to continuing and enhancing its value."

Esser continued, "As a founding investor in Discovery Communications, we have been delighted with its phenomenal growth over the past two decades. I'm impressed with David Zaslav's vision for Discovery and am confident it will continue to be one of the most successful programming brands in the world over the decades to come."

"On behalf of John Hendricks and Discovery's worldwide workforce, we want to thank Jim Robbins, Pat Esser and all of the executives at Cox for their leadership and guidance over the past 20 years," said David Zaslav, President and CEO of Discovery Communications. "They have been outstanding shareholders, and we wish them and the Travel Channel team nothing but success in the future."

Cox and Discovery announced their letter of intent concerning the transaction March 29. Travel Media's ownership of Antenna Audio was initially part of the deal, but was later excluded by mutual agreement of the two parties. With the transaction complete, two-thirds of Discovery Communications is owned by Discovery Holding Company and the remaining one-third is owned by Advance/Newhouse Communications.

- more -

The transaction will not result in any significant changes in the governance rights of Discovery Holding Company or Advance/Newhouse Communications because most matters requiring action by the owners of Discovery Communications require an 80% vote.

About Cox Communications, Inc.

Cox Communications is a multi-service broadband communications and entertainment company with more than 6 million total residential and commercial customers. The third-largest cable television company in the United States, Cox offers an array of advanced digital video, high-speed Internet and telephony services over its own nationwide IP network, as well as integrated wireless services in partnership with Sprint (NYSE: S). Cox Business Services is a full-service, facilities-based provider of communications solutions for commercial customers, providing high-speed Internet, voice and long distance services, as well as data and video transport services for small to large-sized businesses. Cox Media offers national and local cable advertising in traditional spot and new media formats, along with promotional opportunities and production services. Cox owns and operates Travel Channel and TravelChannel.com. More information about the services of Cox Communications, a wholly owned subsidiary of Cox Enterprises, is available at www.cox.com, www.coxbusiness.com, and www.coxmedia.com.

About Discovery Communications

Discovery Communications is the number-one nonfiction media company reaching more than 1.5 billion cumulative subscribers in over 170 countries. Through TV and digital media, Discovery's 100-plus worldwide networks include Discovery Channel, TLC, Animal Planet, Discovery Health, The Science Channel, and Discovery HD Theater. Discovery Communications is owned by Discovery Holding Co. (NASDAQ: DISCA, DISCB), Advance/Newhouse Communications and John S. Hendricks, Discovery's founder and chairman. For more information please visit www.discovery.com.

# # #

Contacts: Cox Communications:
David Grabert, david.grabert@cox.com, 404-269-7054

Discovery Communications:
Michelle Russo, Michelle_Russo@Discovery.com, 240-662-2901

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): **May 14, 2007**

DISCOVERY HOLDING COMPANY
(Exact name of registrant as specified in its charter)

Delaware	**000-51205**	**20-2471174**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

12300 Liberty Boulevard
Englewood, Colorado 80112
(Address of principal executive offices and zip code)

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

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

NY01:193443.1

Item 7.01. Regulation FD Disclosure.

On May 14, 2007, Discovery Communications, LLC ("Discovery"), an equity affiliate of Discovery Holding Company (the "Company"), issued a press release announcing that it had completed its previously announced transaction with Cox Communications Holdings, Inc. ("Cox"), pursuant to which Cox exchanged its 25% stake in Discovery for all of the capital stock of Travel Media, Inc., a subsidiary of Discovery, that holds Travel Channel, travelchannel.com and approximately $1.3 billion in cash. Although, as a result of this transaction, the Company's interest in Discovery increased to two-thirds, there are no significant changes in the governance rights of Discovery because most matters require approval of 80% of the outstanding equity of Discovery. The remaining one-third interest in Discovery is owned by Advance/Newhouse Communications.

This Form 8-K and the press release attached hereto as Exhibit 99.1 are being furnished to the SEC under Item 7.01 of Form 8-K in satisfaction of the public disclosure requirements of Regulation FD.

SIGNATURE

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

Date: May 14, 2007

DISCOVERY HOLDING COMPANY

By: /s/ Christopher W. Shean
Name: Christopher W. Shean
Title: Senior Vice President and Controller

Exhibit Index

Exhibit	Description
99.1	Press Release

Discovery Holding Company
First Quarter Earnings Release

Englewood, Colorado – On May 9, 2007, Discovery Holding Company ("DHC") will file its Form 10-Q with the Securities and Exchange Commission for the three months ended March 31, 2007. The following release is being provided to supplement the information provided in the 10-Q.

DHC is comprised of a 100% ownership interest in Ascent Media Group, LLC ("Ascent Media" or "AMG"), a 100% ownership interest in AccentHealth, LLC ("AccentHealth") and a 50% ownership interest in Discovery Communications, Inc. ("DCI"). Ascent Media provides creative and network services to the media and entertainment industries. AccentHealth operates one of the nation's largest advertising-supported captive audience television networks serving doctor office waiting rooms nationwide. DCI is a global media and entertainment company that provides programming in over 170 countries and territories.

On March 29, 2007, DCI announced that it had entered into a non-binding letter of intent with Cox Communications Holdings, Inc. ("Cox"), a 25% shareholder of DCI, pursuant to which DCI would redeem Cox's ownership interest in DCI for all of the capital stock of a subsidiary of DCI that will hold Travel Channel, travelchannel.com, Antenna Audio and approximately $1.275 billion in cash. DCI expects to raise the cash amount through additional financing, and expects to retire the equity shares previously owned by Cox. Completion of the transaction is subject to negotiation of definitive documents and various conditions, including regulatory clearances and approvals. Upon completion of the transaction, which is expected to close in the second quarter of 2007, DHC would own a 66-2/3% interest in DCI.

<u>Discovery</u>
The presentation below presents information regarding 100% of DCI's revenue, operating cash flow and other selected financial metrics even though DHC only owns 50% of the equity of DCI and accounts for DCI as an equity affiliate. Please see page 4 for a discussion of why management believes this presentation is meaningful to investors.

DCI's revenue increased 10% to $728 million and operating cash flow increased 24% to $180 million. Total revenue increased due to a 7% increase in distribution revenue, a 9% increase in advertising revenue and a $7 million, or 85%, increase in education revenue.

U.S. Networks' revenue increased 10% to $486 million and operating cash flow increased 18% to $180 million. The increase in revenue was due to growth in distribution and advertising revenue across the portfolio and the inclusion of Antenna Audio revenue in the current year. Distribution revenue increased 7% due to a 6% increase in paying subscription units during the year and contractual rate increases. DCI continued to experience strong ratings increases during the quarter at its largest networks, the Discovery Channel and TLC. The Discovery Channel in particular enjoyed an extremely strong first quarter with 13% growth in prime time ratings for Adults 25-54. Net advertising revenue increased 10% primarily due to higher advertising sell-out rates and higher audience delivery on most channels, notably the Discovery Channel and TLC.

U.S. Networks operating expenses increased 5% due to an increase in programming expense and SG&A. Programming expense increased due to the company's continued investment in original productions across all U.S. networks. The increase in SG&A was primarily due to an increase in personnel expense resulting from headcount from 2006 acquisitions combined with compensation increases.

International Networks revenue increased 8% to $208 million and operating cash flow decreased 39% to $19 million. The increase in revenue was due to growth in both distribution and advertising revenue. Net distribution revenue increased 8% due to a 13% increase in paying subscription units combined with contractual rate increases in certain markets. Growth in paying subscription units was primarily due to growth in Europe and Asia. In January 2007, and in connection with the settlement of terms under a pre-existing distribution agreement, Discovery completed negotiations for the renewal of long-term distribution agreements for certain of its U.K. networks and, as previously disclosed, paid a distributor $195.8 million. Most of the payment was attributed to the renewal period and is being amortized over a five year term. As a result, launch amortization at the International Networks, a contra-revenue item, was $10 million in 2007 compared to $2 million in 2006. Net advertising revenue increased 4% primarily due to higher viewership in Europe and Latin America combined with an increased subscriber base in most markets worldwide. Operating expenses increased 17% due to increased programming costs and SG&A expense. Programming and S,G&A costs increased due to the launch of several networks along with a new free-to-air channel in Germany branded as DMAX which was acquired in March 2006. Excluding the effects of exchange rates, revenue increased 2% and operating cash flow decreased 39%.

Revenue in the Commerce, Education and Other division increased 48%, or $11 million. The increase was due to an 85%, or $7 million, increase in education revenue combined with a 15%, or $3 million, increase in commerce revenue. The increase in education revenue comes from a combination of a 12% increase in paying school subscription units and improved customer yields as a result of the increased focus on Discovery's direct-to-school distribution platform, *unitedstreaming*, as well as the division's other premium direct-to-school subscription services. The increase in commerce revenue was driven by increases in both the retail store business and direct-to-consumer e-commerce business. During the first quarter of 2007, Discovery initiated a strategic review of its commerce business to evaluate potential new operating alternatives with a target of reaching a conclusion in the second quarter of 2007. Operating expenses decreased 13% due to a decrease in education expenses. In the education business, the decrease is primarily due to a $4 million reduction in personnel expense as a result of a business restructuring, combined with a $5 million reduction in marketing expense as DCI re-focuses the direction of its education business. Operating losses decreased by 50% to $19 million primarily due to the decrease in spending in the education business.

DCI's outstanding debt balance was $2.9 billion at March 31, 2007.

DHC

DHC's consolidated revenue increased $20 million, or 13%, and consolidated operating cash flow increased $2 million, or 15%. Ascent Media is structured into two global operating divisions – Creative Services Group and Network Services Group. Creative Services Group revenue is generated from fees for video and audio post production, special effects and editorial services for the television, feature film and advertising industries. Generally, these services pertain to the completion of feature films, television programs and advertisements. Network Services Group revenue consists of fees relating to facilities and services necessary to assemble and transport programming for cable and broadcast networks across the world via fiber, satellite and the Internet. The group's revenues are also driven by systems integration and field support services, technology consulting services, design and implementation of advanced video systems, engineering project management, technical help desk and field services. The AccentHealth business is accounted for as part of the Network Services Group.

Creative Services Group revenue increased $12 million and operating cash flow increased $1 million. Revenue increased $12 million, or 12%, due to higher commercial revenue in the U.S., higher feature revenue driven by increased titles for post-production and audio services and higher media services revenue driven by growth in digital vaulting and digital distribution services. These revenue increases were partially offset by a slight decrease in television post-production services. Operating expenses increased due to more labor intensive commercial and feature projects. Network Services Group revenue increased $8 million, or 15%, while operating cash flow decreased $1 million. The increase in revenue was the result of increased system integration services revenue due to the timing of projects and the inclusion of AccentHealth's operations for the entire quarter in the current year. These Network Services revenue increases were partially offset by lower content distribution revenue primarily due to the termination of certain distribution contracts in the U.K. and other revenue decreases primarily due to a large one-time project in 2006. Operating expenses increased due to increased volumes partially offset by a $2 million decrease in S,G & A expenses resulting from the restructuring which occurred in the third and fourth quarter of 2006, lowering headcount and personnel costs.

NOTES

As a supplement to DHC's consolidated statements of operations included in its 10-Q, the preceding is a presentation of financial information on a stand alone basis for DCI and for the consolidated results of DHC for the three months ended March 31, 2007.

Unless otherwise noted, the foregoing discussion compares financial information for the three months ended March 31, 2007 to the same periods in 2006. Please see page 6 of this press release for the definition of operating cash flow and a discussion of management's use of this performance measure. Schedule 1 to this press release provides a reconciliation of DHC's consolidated segment operating cash flow for its operating segments to consolidated earnings before income taxes. Schedule 2 to this press release provides a reconciliation of the operating cash flow for DHC and DCI to that entity's operating income for the same period, as determined under GAAP. Certain prior period amounts have been reclassified for comparability with the 2007 presentation.

OUTSTANDING SHARES AND LIQUIDITY

At March 31, 2007, there were approximately 280.2 million outstanding shares of DISCA and DISCB and 4.9 million shares of DISCA and DISCB reserved for issuance pursuant to warrants and employee stock options. At March 31, 2007, there were 4,833,257 options that had a strike price that was lower than the closing stock price. Exercise of these options would result in aggregate proceeds of approximately $84.7 million. At March 31, 2007, DHC had $203 million of cash and liquid investments and no debt.

Certain statements in this press release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as trend information in the discussion of DCI's and Ascent Media's revenue, expenses and operating cash flow. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the operating businesses of DHC included herein or industry results, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others: the risks and factors described in the publicly filed documents of DHC, including the most recently filed Form 10-Q of DHC; general economic and business conditions and industry trends including in the advertising and retail markets; spending on domestic and foreign advertising; the continued strength of the industries in which such businesses operate; continued consolidation of the broadband distribution and movie studio industries; uncertainties inherent in proposed business strategies and development plans; changes in distribution and viewing of television programming, including the expanded deployment of personal video recorders and IP television and their impact on television advertising revenue; rapid technological changes; future financial performance, including availability, terms and deployment of capital; availability of qualified personnel; the development and provision of programming for new television and telecommunications technologies; changes in, or the failure or the inability to comply with, government regulation, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings; adverse outcomes in pending litigation; changes in the nature of key strategic relationships with partners and joint ventures; competitor responses to such operating businesses' products and services, and the overall market acceptance of such products and services, including acceptance of the pricing of such products and services; and threatened terrorist attacks and ongoing military action, including armed conflict in the Middle East and other parts of the world. These forward-looking statements speak only as of the date of this Release. DHC expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in DHC's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Contact: John Orr (720) 875-5622

SUPPLEMENTAL INFORMATION

Please see page 7 for the definition of operating cash flow (OCF) and Schedule 2 at the end of this document for reconciliations for the applicable periods in 2006 and 2007 of operating cash flow to operating income, as determined under GAAP, for each identified entity.

The selected information for DCI included herein presents 100% of the revenue, operating cash flow, operating income and other selected financial metrics for DCI even though DHC owns only 50% of DCI and accounts for it as an equity affiliate. This presentation is designed to reflect the manner in which DHC's management reviews the operating performance of its investment in DCI. It should be noted, however, that the presentation is not in accordance with GAAP since the results of operations of equity method investments are required to be reported on a net basis. Further DHC could not, among other things, cause DCI to distribute to DHC our proportionate share of the revenue or operating cash flow of DCI.

The selected financial information presented for DCI was obtained directly from DCI. DHC does not control the decision-making processes or business management practices of DCI. The above discussion and following analysis of DCI's operations and financial position have been prepared based on information that DHC receives from DCI and represents DHC's views and understanding of DCI's operating performance and financial position based on such information. DCI is not a separately traded public company, and DHC does not have the ability to cause DCI's management to prepare their own management's discussion and analysis for our purposes. Accordingly, we note that the material presented in this publication might be different if DCI's management had prepared it. DHC is not aware, however, of any errors in or possible misstatements of the financial information provided to it by DCI that would have a material effect on DHC's consolidated financial statements.

QUARTERLY SUMMARY

(amounts in millions)	1Q06	2Q06	3Q06	4Q06	1Q07
DISCOVERY HOLDING COMPANY (100%)					
Revenue	$ 154	166	169	199	174
OCF	$ 13	10	17	19	15
Operating Income (Loss)	$ (3)	(6)	(97)	(9)	(1)
DISCOVERY COMMUNICATIONS, INC. (50.0%)					
Revenue – U.S. Networks [1]	$ 443	498	469	516	486
Revenue – International Networks [2], [3]	193	207	223	256	208
Revenue – Commerce, Education & Other [4]	23	28	30	127	34
Revenue – Total	$ 659	733	722	899	728
OCF – U.S. Networks [1]	$ 152	206	188	181	180
OCF – International Networks [2], [3]	31	25	36	24	19
OCF – Commerce, Education & Other [4]	(38)	(41)	(31)	(11)	(19)
OCF – Total	$ 145	190	193	194	180
Operating Income	$ 110	152	160	128	122

(1) **DCI – Discovery Networks U.S.:** Discovery Channel, TLC, Animal Planet, Travel Channel, Discovery Health Channel, Discovery Kids Channel, The Science Channel, Discovery Times Channel, Discovery Home, Military Channel, Discovery HD Theater, Fit TV, BBC-America, BBC World News Representation and online and other initiatives.

(2) **DCI – Discovery Networks International:** Discovery Channels in UK, Europe, Latin America, Asia, India, Africa, Middle East; Discovery Kids in UK, Latin America; Discovery Travel & Living in UK, Europe, Latin America, Asia, India; Discovery Home & Health in UK, Latin America, Asia; Discovery Real Time in UK, Europe, Asia; Discovery Civilisation in UK, Europe, Latin America, Middle East; Discovery Science in UK, Europe, Latin America, Asia, Middle East; Discovery Wings in UK; Animal Planet in UK, Germany, Italy; Discovery en Español, Discovery Kids en Español, Discovery Travel & Living (Viajar y Vivir) in U.S.; Discovery Geschichte in Germany; Discovery HD in UK, Europe; DMAX in Germany; Discovery Turbo in Latin America, Spain and Portugal and consolidated BBC/DCI joint venture networks (Animal Planet networks in Europe, Latin America, Japan, Asia, Africa; Middle East; People + Arts in Latin America, Spain and Portugal).

Discovery Networks International Joint Ventures – Consolidated
Discovery Networks International joint venture networks (Animal Planet networks in Europe, Latin America, Japan, Asia, Africa, Middle East; People + Arts in Latin America, Spain and Portugal) are composed of joint ventures with British Broadcasting Corporation. These ventures are controlled by DCI and consolidated into the results of Discovery Networks International. The equity in the assets of these joint ventures is predominantly held 50/50 by DCI and BBC. Exceptions involve participants related to the local market in which a specific network operates.

(3) **DCI – Discovery Networks International – Equity Affiliates:**
DCI accounts for its interests in joint ventures it does not control as equity method investments. The operating results of joint ventures that DCI does not control, including Discovery Channel Canada, Discovery Channel Japan, Discovery HD Japan, Discovery Kids Canada, Discovery Health Canada, Discovery Civilization Canada, Discovery HD Canada, Animal Planet Canada and Discovery Historia Poland, are not consolidated and are not reflected in the results presented above.

(4) **DCI – Commerce, Education and Other:** Commerce, Education & Other is comprised of a North American chain of over 100 Discovery Channel retail stores, a mail-order catalog business, an on-line shopping site, a licensing and strategic partnerships business, and an educational business that reaches many students in the U.S. through the sale of supplemental hardcopy products and the delivery of streaming video-on-demand through its digital internet enabled platforms.

NON-GAAP FINANCIAL MEASURES

This press release includes a presentation of operating cash flow, which is a non-GAAP financial measure, for DHC on a consolidated basis and DCI on a stand alone basis together with a reconciliation of that non-GAAP measure to such entity's operating income, determined under GAAP. DHC defines operating cash flow as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock and other equity-based compensation and accretion expense on asset retirement obligations). Operating cash flow, as defined by DHC, excludes depreciation and amortization, stock and other equity-based compensation, accretion expense on asset retirement obligations and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP.

DHC believes operating cash flow is an important indicator of the operational strength and performance of its businesses, including the ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. Because operating cash flow is used as a measure of operating performance, DHC views operating income as the most directly comparable GAAP measure. Operating cash flow is not meant to replace or supercede operating income or any other GAAP measure, but rather to supplement the information to present investors with the same information as DHC's management considers in assessing the results of operations and performance of its assets. Please see the attached schedules for a reconciliation of consolidated segment operating cash flow to consolidated earnings before income taxes (Schedule 1) and a reconciliation of each identified entity's operating cash flow to its operating income calculated in accordance with GAAP (Schedule 2).

DISCOVERY HOLDING COMPANY

SCHEDULE 1

The following table provides a reconciliation of consolidated segment operating cash flow to earnings before income taxes for the three months ended March 31, 2006 and 2007, respectively.

(amounts in millions)	2006	2007
Consolidated segment operating cash flow	$ 13	15
Stock-based compensation	--	(1)
Depreciation and amortization	(16)	(15)
Share of earnings of DCI	21	22
Other, net	2	9
Earnings before income taxes	**$ 20**	**30**

SCHEDULE 2

The following tables provide reconciliation of operating cash flow to operating income calculated in accordance with GAAP for the three months ended March 31, 2006, June 30, 2006, September 30, 2006, December 31, 2006 and March 31, 2007, respectively.

(amounts in millions)	1Q06	2Q06	3Q06	4Q06	1Q07
DISCOVERY HOLDING COMPANY (100%)					
Operating Cash Flow	$ 13	10	17	19	15
Depreciation and Amortization	(16)	(16)	(16)	(20)	(15)
Stock-Based Compensation Expense	--	--	--	(3)	(1)
Impairment of Goodwill	--	--	(93)	--	--
Other	--	--	(5)	(5)	--
Operating Loss	**$ (3)**	**(6)**	**(97)**	**(9)**	**(1)**
DISCOVERY COMMUNICATIONS, INC. (50.0%)					
Operating Cash Flow	$ 145	190	193	194	180
Depreciation and Amortization	(30)	(33)	(32)	(38)	(35)
Long-Term Incentive Plan	(5)	(5)	(1)	(28)	(12)
Restructuring Charge	--	--	--	--	(11)
Operating Income	**$ 110**	**152**	**160**	**128**	**122**

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

FORM 10-K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 000-51205

DISCOVERY HOLDING COMPANY

(Exact name of Registrant as specified in its charter)

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

A-622.4
B-30

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

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

Title of each class	Name of exchange on which registered
Series A Common Stock, par value $.01 per share	Nasdaq
Series B Common Stock, par value $.01 per share	Nasdaq

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes ☐ No ☑

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☑

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of the voting stock held by nonaffiliates of Discovery Holding Company computed by reference to the last sales price of such stock, as of the closing of trading on June 30, 2006, was approximately $3.9 billion.

The number of shares outstanding of Discovery Holding Company's common stock as of January 31, 2007 was:

Series A Common Stock – 268,197,601; and
Series B Common Stock – 12,025,078 shares.

Documents Incorporated by Reference

The Registrant's definitive proxy statement for its 2007 Annual Meeting of Stockholders is hereby incorporated by reference into Part III of this Annual Report on Form 10-K

DISCOVERY HOLDING COMPANY
2006 ANNUAL REPORT ON FORM 10-K

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PART I.

Item 1. *Business.*

(a) General Development of Business

Discovery Holding Company was incorporated in the state of Delaware on March 9, 2005 as a wholly-owned subsidiary of Liberty Media Corporation, which we refer to as Liberty. On July 21, 2005, Liberty completed the spin off of Discovery Holding Company to Liberty's shareholders. In the spin off, each holder of Liberty common stock received 0.10 of a share of our Series A common stock for each share of Liberty Series A common stock held and 0.10 of a share of our Series B common stock for each share of Liberty Series B common stock held. Approximately 268.1 million shares of our Series A common stock and 12.1 million shares of our Series B common stock were issued in the spin off, which is intended to qualify as a tax-free transaction.

We are a holding company. Through our wholly owned subsidiary, Ascent Media Group, LLC ("Ascent Media"), and our 50% owned equity affiliate Discovery Communications, Inc. ("Discovery" or "DCI"), we are engaged primarily in (1) the production, acquisition and distribution of entertainment, educational and information programming and software, (2) the retail sale and licensing of branded and other specialty products and (3) the provision of creative and network services to the media and entertainment industries. Our subsidiaries and affiliates operate in the United States, Europe, Latin America, Asia, Africa and Australia.

The assets and operations of Ascent Media are composed primarily of the assets and operations of 13 companies acquired by Liberty from 2000 through 2004, including The Todd-AO Corporation, Four Media Company, certain assets of SounDelux Entertainment Group, Video Services Corporation, Group W Network Services, London Playout Centre and the systems integration business of Sony Electronics. The combination and integration of these and other acquired entities allow Ascent Media to offer integrated outsourcing solutions for the technical and creative requirements of its clients, from content creation and other post-production services to media management and transmission of the final product to broadcast television stations, cable system head-ends and other destinations and distribution points.

Discovery is a leading global media and entertainment company. Discovery has grown from the 1985 launch in the United States of its core property, Discovery Channel, to current global operations in over 170 countries across six continents, with over 1.5 billion total cumulative subscription units. Discovery operates its businesses in three groups: Discovery networks U.S., Discovery networks international, and Discovery commerce, education and other.

On January 27, 2006, we acquired AccentHealth, LLC ("AccentHealth") for cash consideration of $45 million, plus working capital adjustments of $1.8 million. AccentHealth operates an advertising-supported captive audience television network in doctor office waiting rooms nationwide. For financial reporting purposes, the results of operations of AccentHealth have been included in our consolidated results as part of Ascent Media's network services group.

* * * *

Certain statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing and operating strategies, integration of acquired businesses, new service offerings and anticipated sources and uses of capital. In particular, statements under Item 1. "Business," Item 1A. "Risk Factors", Item 2. "Properties," Item 3. "Legal Proceedings," Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" contain forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- general economic and business conditions and industry trends including the timing of, and spending on, feature film and television production;
- spending on domestic and foreign television advertising and spending on domestic and foreign first-run and existing content libraries;
- the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate;
- continued consolidation of the broadband distribution and movie studio industries;

- uncertainties inherent in the development and integration of new business lines, acquired operations and business strategies;
- changes in the distribution and viewing of television programming, including the expanded deployment of personal video recorders and other technology, and their impact on television advertising revenue;
- rapid technological changes;
- uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies;
- future financial performance, including availability, terms and deployment of capital;
- fluctuations in foreign currency exchange rates and political unrest in international markets;
- the ability of suppliers and vendors to deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- the possibility of an industry-wide strike or other job action affecting a major entertainment industry union;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;
- changes in the nature of key strategic relationships with partners and joint venturers;
- competitor responses to our products and services, and the products and services of the entities in which we have interests; and
- threatened terrorists attacks and ongoing military action in the Middle East and other parts of the world.

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. When considering such forward-looking statements, you should keep in mind the factors described in Item 1A, "Risk Factors" and other cautionary statements contained in this Annual Report. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

(b) Financial Information About Operating Segments

We identify our reportable segments based on financial information reviewed by our chief operating decision maker, or his designee. We report financial information for our consolidated business segments that represent more than 10% of our consolidated revenue or earnings before taxes and equity affiliates whose share of earnings represent more than 10% of our earnings before taxes.

Based on the foregoing criteria, our three reportable segments are our Creative Services group and Network Services group, which are operating segments of Ascent Media, and Discovery, which is an equity affiliate. A fourth reportable segment, media management services group, existed for a portion of 2006, but was realigned within the Creative Services group and Network Services group during the third and fourth quarters of 2006. Financial information related to our operating segments can be found in note 17 to our consolidated financial statements found in Part II of this report.

(c) Narrative Description of Business

ASCENT MEDIA

Ascent Media provides a wide variety of creative and network services to the media and entertainment industries. Ascent Media's clients include major motion picture studios, independent producers, broadcast networks, programming networks, advertising agencies and other companies that produce, own and/or distribute entertainment, news, sports, corporate, educational, industrial and advertising content.

Following an operational realignment in 2006, Ascent Media's operations are organized into two main categories: Creative services and Network services.

Creative Services

Ascent Media's creative services group provides various technical and creative services necessary to complete principal photography into final products, such as feature films, movie trailers, documentaries and independent films, episodic television, TV movies and mini-series, television commercials, music videos, interactive games and new digital media, promotional and identity campaigns and corporate communications. These services are referred to generally in the entertainment industry as "post-production" services. In addition, the creative services group provides a full complement of facilities and services necessary to optimize, archive, manage and repurpose completed media assets for global distribution via freight, satellite, fiber and the Internet.

Ascent Media markets its creative services under various brand names that are well known in the entertainment industry, including *Blink Digital, Cinetech, Company 3, Design Music Group (DMG), Digital Media Data Center (DMDC), Digital Symphony, Encore Hollywood, FilmCore, Level 3 Post, Method, Modern Music, One Post, POP Sound, R!OT, Rushes, Soho Images, Soundelux, Sound One, St. Anne's Post, Todd-AO* and *VisionText.*

The creative services client base comprises major motion picture studios and their international divisions, independent television production companies, broadcast networks, advertising agencies, creative editorial companies, corporate media producers, independent owners of television and film libraries and emerging new media distribution channels. The principal facilities of the creative services group are in Los Angeles, New York, Northvale (New Jersey), Atlanta, San Francisco, Mexico City and London.

Key services provided by Ascent Media's creative services group include the following:

Dailies. Clients require daily screening of their previous day's recorded work in order to evaluate technical and aesthetic qualities of the production and to begin the creative editorial process. Ascent Media provides the film development, digital transfer from film to video and video processing necessary for clients to view principal photography on a daily basis, also known as "dailies." For clients that record their productions on film, Ascent Media processes and prints film negatives for film projection. The company also delivers dailies that are transferred from film to digital media using telecine equipment. The transfer process is technically challenging and is used to integrate various forms of audio and encode the footage with feet and frame numbers from the original film. Dailies delivered as a digital file can be processed in high definition or standard definition video and can be screened in a nonlinear manner on a variety of playback equipment.

Telecine. Telecine is the process of transferring film into video (in either analog or digital medium). During this process, a variety of parameters can be manipulated, such as color and contrast. Because the color spectrum of film and digital media are different, Ascent Media has creative talent who utilize creative colorizing techniques, equipment and processes to enable its clients to achieve a desired visual look and feel for television commercials and music videos, as well as feature films and television shows. Ascent Media also provides live telecine services via satellite, using a secure closed network able to accurately transmit subtle color changes to connect its telecine artists with client offices or other affiliated post-production facilities.

Digital intermediates. Ascent Media's digital intermediates service provides customers with the ability to convert film to a high resolution digital master file for color correction, creative editorial and electronic assembly of masters in other formats. If needed, the digital file can then be converted back to film.

Creative editorial. After principal photography has been completed, Ascent Media's editors assemble the various elements into a cohesive story consistent with the messaging, branding and creative direction by Ascent Media's advertising agency clients. Ascent Media provides the tools and talent required to support its clients through all stages of the editing process, beginning with the low-resolution digital images and off-line editing workstations used to create an edit decision list, through the high-resolution editorial process used to complete a final product suitable for broadcast. In addition, Ascent Media is able to offer expanded communications infrastructure to provide digital images directly from the film-to-tape transfer process to a workstation through dedicated data lines.

Visual effects. Visual effects are used to enhance the viewing audience's experience by supplementing images obtained in principal photography with computer-generated imagery and graphical elements. Visual effects are typically used to create images that cannot be created by any other cost-effective means. Ascent Media also provides services on an array of graphics and animation workstations using a variety of software to accomplish unique effects, including three-dimensional animation.

Assembly, formatting and duplication. Ascent Media implements clients' creative decisions, including decisions regarding the integration of sound and visual effects, to assemble source material into its final form. In addition, Ascent Media uses sophisticated computer graphics equipment to generate titles and character imagery and to format a given program to meet specific network requirements, including time compression and commercial breaks. Finally, Ascent

Media creates multiple master videotapes for delivery to the network for broadcast, archival and other purposes designated by the customer.

Distribution. Once a television commercial has been completed, Ascent Media provides broadcast and support services, including complete video and audio duplication, distribution, and storage and asset management, for advertising agencies, corporate advertisers and entertainment companies. Ascent Media uses domestic and international satellite, fiber and Integrated Services Digital Network, or ISDN, Internet access, and conventional air freight for the delivery of television and radio spots. Ascent Media currently houses over 85,000 commercial production elements in its vaults for future use by its clients. Ascent Media's commercial television distribution facilities in Los Angeles and San Francisco, California enable Ascent Media to service any regional or national client.

Sound supervision, sound design and sound editorial. Ascent Media provides creative talent, facilities and support services to create sound for feature films, television content, commercials and trailers, interactive multimedia games and special live venues. Sound supervisors ensure that all aspects of sound, dialogue, sound effects and music are properly coordinated. Ascent Media's sound services include, but are not limited to, sound editing, sound design, sound effect libraries, ADR (automated dialogue replacement, a process for recording dialogue in synchronization with previously recorded picture) and Foley (non-digital sound effects).

Music services. Music services are an essential component of post-production sound. Ascent Media has the technology and talent to handle all types of music-related services, including original music composition, music supervision, music editing, scoring/recording, temporary sound tracks, composer support and preparing music for soundtrack album release.

Re-recording/Mixing. Once sound editors, sound designers, composers, music editors, ADR and Foley crews, and many others, have prepared the elements that will make up the finished product, the final component of the creative sound post production process is the mix (or re-recording). Mixing a film involves the process of combining multiple elements, such as tracks of sound effects, dialogue and music, to complete the final product. Ascent Media maintains a significant number of mixing stages, purpose-built and provisioned with advanced recording equipment, capable of handling any type of project, from major motion pictures to smaller independent films.

Sound effects and music libraries. Through its Soundelux brand, Ascent Media maintains an extensive sound effects library with over 300,000 unique sounds, which editors and clients access through the company's intranet and remotely via the Internet. The company also owns several production music libraries through its Hollywood Edge brand. Ascent Media's clients use the sound effects and music libraries in feature films, television shows, commercials, interactive and multimedia games. Ascent Media actively continues to add new, original recordings to its library.

Negative developing and cutting. Ascent Media's film laboratories provide negative developing for television shows such as one-hour dramas and movie-length programming, including negative developing of "dailies" (the original negative shot during each production day), as well as the often complex and technically demanding commercial work and motion picture trailers. Ascent Media also provides negative cutting services for the distribution of commercials on film.

Restoration, preservation and asset protection of existing and damaged content. Ascent Media provides film restoration, preservation and asset protection services. Ascent Media's technicians use photochemical and digital processes to clean, repair and rebuild a film's elements in order to return the content to its original and sometimes to an improved image quality. Ascent Media also protects film element content from future degradation by transferring the film's image to newer archival film stocks. Ascent Media also provides asset protection services for its clients' color library titles, which is a preservation process whereby B/W, silver image, polyester, positive and color separation masters are created, sufficiently protecting the images of new and older films.

Transferring film to analog video or digital media. A considerable amount of film content is ultimately distributed to the home video, broadcast, cable or pay-per-view television markets. This requires film images to be transferred to an analog video or digital file format. Each frame must be color corrected and adapted to the size and aspect ratio of a television screen in order to ensure the highest level of conformity to the original film version. Because certain film formats require transfers with special characteristics, it is not unusual for a motion picture to be mastered in many different versions. Technological developments, such as the domestic introduction of television sets with a 16 X 9 aspect ratio and the implementation of advanced and high definition digital television systems for terrestrial and satellite broadcasting, are expected to contribute to the growth of Ascent Media's film transfer business. Ascent Media also digitally removes dirt and scratches from a damaged film master that is transferred to a digital file format.

Professional duplication and standards conversion. Ascent Media provides professional duplication, which is the process of creating broadcast quality and resolution independent sub-masters for distribution to professional end users. Ascent Media uses master elements to make sub-masters in numerous domestic and international broadcast standards as well as up to 22 different tape formats. Ascent Media also provides standards conversion, which is the process of changing the frame rate of a video signal from one video standard, such as the United States standard (NTSC), to another, such as a European standard (PAL or SECAM). Content is regularly copied, converted and checked by quality control for use in intermediate processes, such as editing, on-air backup and screening and for final delivery to cable and pay-per-view programmers, broadcast networks, television stations, airlines, home video duplicators and foreign distributors. Ascent Media's duplication and standards conversion facilities are technically advanced with unique characteristics that significantly increase equipment capacity while reducing error rates and labor cost.

DVD compression and authoring and menu design. Ascent Media provides all stages of DVD production, including creative menu design, special feature production, project management, encoding, 5.1 surround editing and quality control. Ascent Media also prepares and optimizes content for evolving formats of digital distribution, such as *video-on-demand and interactive television.*

Storage of original elements and working masters. Ascent Media's archives are designed to store working master videotapes and film elements in a highly controlled environment protected from temperature and humidity variation, seismic disturbance, fire, theft and other external events. In addition to the physical security of the archive, content owners require frequent and regular access to their libraries. Physical elements stored in Ascent Media's archive are uniquely bar-coded and maintained in a library management database offering rapid access to elements, concise reporting of element status and element tracking throughout its travel through Ascent Media's operations.

Syndicated television distribution. Ascent Media's syndication services provide AMOL-encoding and closed-captioned sub-mastering, commercial integration, library distribution, station list management and v-chip encoding. Ascent Media distributes syndicated television content by freight, satellite, fiber or the Internet, in formats ranging from low-resolution proxy streams to full-bandwidth high-definition television and streaming media.

Network Services

Ascent Media's network services group provides origination, transmission/distribution and technical services to broadcast, cable and satellite programming networks, local television channels, broadcast syndicators, satellite broadcasters, government, other broadband telecommunications companies and corporations that operate private networks. Ascent Media's network services group operates from facilities located in California, Connecticut, Florida, Minnesota, New York, New Jersey, Virginia and the United Kingdom and Singapore.

Key services provided by Ascent Media's network services group include the following:

Network origination and master control. The network services group provides videotape and file-based playback and origination to cable, satellite and pay-per-view programming networks. Ascent Media accepts daily program schedules, programs, promotional materials and advertising and transmits 24 hours of seamless daily programming to cable operators, direct broadcast satellite systems and other destinations, over fiber and satellite, using automated systems for broadcast playback. Associated services include cut-to-clock and compliance editing, tape library management, ingest & quality control, format conversion, and tape duplication. For programming designed for export to other markets, Ascent Media provides subtitling and voice dubbing. Ascent Media also operates industry-standard encryption and/or compression systems as needed for customer satellite transmission. Currently, over two hundred programming feeds — running 24 hours a day, seven days a week — are supported by Ascent Media's facilities in the United States, London and Singapore. Ascent Media operates television production studios with live-to-satellite interview services, cameras, production and audio control rooms, videotape playback and record, multi-language prompters, computerized lighting, dressing and makeup rooms and field and teleconferencing services. Ascent Media offers complete post-production services for on-air promotions, including graphics, editing, voice-over record, sound effects editing, sound mixing and music composition.

Transport and connectivity. Ascent Media operates satellite earth station facilities in Singapore, California, New York, New Jersey, Minnesota, Connecticut and Florida. Ascent Media's facilities are staffed 24 hours a day and may be used for uplink, downlink and turnaround services. Ascent Media accesses various "satellite neighborhoods," including basic and premium cable, broadcast syndication, direct-to-home and DBS markets. Ascent Media resells transponder capacity for occasional and full-time use and bundles its transponder capacity with other broadcast and syndication services to provide a complete broadcast package at a fixed price. Ascent Media's "teleports" are high-bandwidth communications gateways with video switches and facilities for satellite, optical fiber and microwave transmission. Ascent Media's facilities offer satellite antennae capable of transmitting and receiving feeds in both C-Band and Ku-Band frequencies. Ascent Media also provides transportable services, including point-to-point microwave transmission, transportable up-link and downlink transmission and broadcast quality teleconference services. Ascent Media operates a global fiber network (branded Global Interconnect) to carry real-time video between its various locations in the US, London, and Singapore. This network is used to provide full-time program feeds and ad hoc services to clients.

Consulting Services. Ascent Media provides strategic, technology and business consulting services to the media and entertainment industry, leveraging the core strengths and knowledge-base of the company. Key practice areas include: digital migration; content delivery strategies; workflow analysis and design; emerging delivery platforms (such as Internet-protocol television, mobile and broadband); technology assessment; and technology-enabled business strategies.

Engineering and systems integration. Ascent Media designs, builds, installs and services advanced technical systems for production, management and delivery of rich media content to the worldwide broadcast, cable television, broadband, government and telecommunications industries. Ascent Media's engineering and systems integration business operates out of facilities in New Jersey, California, Florida, and London, and services global clients including major broadcasters, cable and satellite networks, telecommunications providers, corporate television networks, a major telecommunications company as well as numerous production and post-production facilities. Services offered include program management, engineering design, equipment procurement, software integration, construction, installation, service and support. Ascent Media also designs and constructs satellite earth stations and related facilities.

Network Operations, Field Service and Call Center. The network services group provides field service operations — 24 hours a day, seven days a week — through an on-staff network of approximately 50 field engineers located throughout the United States. Services include preventative and reactive maintenance of satellite earth stations, satellite networks, fiber-based digital transmission facilities, cable and telecommunications stations (also called head ends), and other technical facilities for the distribution of video content. The group operates a call center — 24 hours a day, seven days a week — out of its Palm Bay, Florida facility, providing outsourced services for technology manufacturing companies, networks and telecoms. In addition, the group operates a network operations center, providing outsourced services relating to monitoring and management of satellite and terrestrial distribution networks and remote monitoring and control of technical facilities. End users for field service, call center and network operation center services include major US broadcast and cable networks, telecommunications providers, digital equipment manufacturers, and government and corporate operations.

Strategy

The entertainment services industry has been historically fragmented with numerous providers offering discrete, geographically-limited, non-integrated services. Ascent Media's services, however, span the entirety of the value chain from the creation and management of media content to the distribution of media content via multiple transmission paths including satellite, fiber and Internet Protocol-based networks. Ascent Media believes the breadth and range of its services uniquely provide it the scale and flexibility necessary to realize significant operating and marketing efficiencies: a global, scaleable media services platform integrating preparation, management and transmission services; and common "best practices" operations management across the Ascent Media enterprise. Ascent Media's goal is to be the premier end-to-end digital media supply chain services provider to the media and entertainment industry, creating, managing and distributing rich media content across all distribution channels on a global basis. Ascent Media believes it can optimize its position in the market by pursuing the following strategies:

Grow digital media management business. Ascent Media intends to increase business with major media and entertainment clients by storing, managing and distributing their digital media, which are necessary for repurposing for file-based network origination and other forms of digital distribution. In this regard, it intends to deploy its digital media management system, which is currently deployed in Los Angeles, in the United Kingdom and the East Coast of the U.S.

Increase scale of operations. Ascent Media intends to increase the scale of its operations through a combination of internal investment in facilities plus external investment in companies and joint ventures. Its goal is to attract additional customers in its existing lines of business and expand its business operations geographically.

Expand scope of services. Ascent Media intends to expand the scope of its services by applying its core capabilities to new business activities, providing content management and distribution services based on electronic data files rather than physical tapes, participating in emerging high revenue-generating services such as re-formatting content for distribution to new platforms, and attracting new customers with unique service needs that are less susceptible to competitive threats.

Deploy an interconnected global media network. Ascent Media plans to provide clients access to an Internet-based network that manages and provides solutions for integrated workflows. The network will provide global connectivity and file transport capabilities, which will make client workflows more efficient and enhance Ascent's internal business systems.

Optimize the organization. In order to reach the strategic goals described above, Ascent Media streamlined its internal organization in 2006. Specifically, Ascent Media re-aligned its divisional structure to become more compatible with its diversified customer base and the integrated file-based solutions that they seek.

Seasonality

The demand for Ascent Media's core motion picture services, primarily in its creative services group, has historically been seasonal, with higher demand in the spring (second fiscal quarter) and fall (fourth fiscal quarter), and lower demand in the winter and summer. Similarly, demand for Ascent Media's television program services, primarily in its creative services group, is higher in the first and fourth quarters and lowest in the summer, or third quarter. Demand for Ascent Media's commercial services, primarily in its creative services group, are fairly consistent with slightly higher activity in the third quarter. However, changes in the timing of the demand for television program services may result in increased business for Ascent Media in the summer. In addition, the timing of long-term projects in Ascent Media's creative services group and network services group are beginning to offset the quarters in which there has been historically lower demand for Ascent Media's motion picture and television services. Accordingly, Ascent Media expects to experience less dramatic quarterly fluctuations in its operating performance in the future.

DISCOVERY

Discovery Communications, Inc. is a leading global media and entertainment company. Discovery has grown from the 1985 launch in the United States of its core property, Discovery Channel, to current global operations in over 170 countries across six continents, with over 1.5 billion total cumulative subscription units. The term "subscription units" means, for each separate network or other programming service that Discovery offers, the number of television households that are able to receive that network or programming service from their cable, satellite or other television provider, and the term "cumulative subscription units" refers to the sum of such figures for multiple networks and/or programming services, including: (1) multiple networks received in the same household, (2) subscription units for joint venture networks, (3) subscription units for branded programming blocks, which are generally provided without charge, and (4) households that receive Discovery programming networks from pay-television providers without charge pursuant to various pricing plans that include free periods and/or free carriage. Discovery operates its businesses in three groups: Discovery Networks U.S., Discovery Networks International, and Discovery Commerce, Education and Other.

Discovery's relationships and agreements with the distributors of its channels are critical to its business as they provide Discovery's subscription revenue stream and access to an audience for advertising sales purposes. There has been a great deal of consolidation among cable and satellite television operators in the United States in recent years, with over 90% of the pay television households in the country now controlled by the top eight distributors. Discovery also operates in certain overseas markets which have experienced similar industry consolidation. Industry consolidation has generally provided more leverage to the distributors in their relationships with programmers. Accordingly, as its affiliation agreements expire, Discovery may not be able to obtain terms in new affiliation agreements that are comparable to terms in its existing agreements.

Discovery earns revenue from global delivery of its programming pursuant to affiliation agreements with cable television and direct-to-home satellite operators (which is described as distribution revenue throughout this report), from the sale of advertising on its networks and from product and subscription sales in its commerce and education businesses. Distribution revenue includes all components of revenue earned through affiliation agreements. Discovery's affiliation agreements typically have terms of 3 to 10 years and provide for payments based on the number of subscribers that receive Discovery's services. Discovery has grown its global network business by securing as broad a subscriber base as possible for each of its channels by entering into affiliation agreements. After obtaining scalable distribution of its networks, Discovery invests in programming and marketing in order to build a viewing audience to support advertising sales. In certain cases, Discovery has made cash payments to distributors in exchange for carriage or has entered into contractual arrangements that allow the distributors to show certain of Discovery's channels for extended free periods. In the United States, Discovery has the necessary audience and ratings for its programming such that advertising sales provide more revenue than channel subscriptions. Distribution revenue still accounts for the majority of the international networks' revenue base, and this is anticipated to be the case for the foreseeable future. As a result, growing the distribution base for existing and newly launched international networks will continue to be the primary focus of the international division. No single customer represented more than 10% of Discovery's consolidated revenue for the year ended December 31, 2006.

Discovery's principal operating costs consist of programming expense, sales and marketing expense, personnel expense and general and administrative expenses. Programming is Discovery's largest expense. Costs incurred and capitalized for the direct production of programming content are amortized over varying periods based on the expected realization of revenue from the underlying programs. Licensed programming is amortized over the contract period based