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

# FORM 8-K/A

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

**Date of Report (Date of Earliest Event Reported): September 17, 2008**

# Discovery Communications, Inc.
(Exact name of registrant as specified in its charter)

| **Delaware** | **001-34177** | **35-2333914** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

| **One Discovery Place, Silver Spring, Maryland** | **20910** |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: **240-662-2000**

Not Applicable
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:

☐ 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))

**Item 2.01. Completion of Acquisition or Disposition of Assets.**

On September 23, 2008, Discovery Communications, Inc. (DCI), filed a Current Report on Form 8-K to report that on September 17, 2008, Discovery Holding Company ("DHC") completed the divestiture of its interests in Ascent Media Corporation ("AMC"). DCI also reported that on September 17, 2008, DHC completed its merger with DCI. DCI previously filed unaudited condensed pro forma combined financial statements under Item 9.01(b) of Form 8-K, which reflected the divestiture of AMC and the merger of DCH with DCI. This Current Report on Form 8-K/A amends and supplements the initial Current Report on Form 8-K to include the financial statements and exhibits required by Items 9.01(a) and 9.01(d) of Form 8-K.

**Item 9.01. Financial Statements and Exhibits.**

(a) Financial Statements of Business Acquired.

The unaudited condensed consolidated financial statements of Discovery Communications Holding, LLC as of June 30, 2008 and for the six-month period ended June 30, 2008 and the period from May 15, 2007 through June 30, 2007, and of Discovery Communications, Inc. (the predecessor entity to Discovery Communications Holding, LLC, and not the current Company) for the period from January 1, 2007 through May 14, 2007, are filed as Exhibit 99.4 hereto and incorporated herein by this reference. The audited consolidated financial statements of Discovery Communications Holding, LLC as of December 31, 2007 and for the period from May 15, 2007 through December 31, 2007, and of Discovery Communications, Inc. (the predecessor entity to Discovery Communications Holding, LLC, and not the current Company) as of December 31, 2006 and for the period from January 1, 2007 through May 14, 2007 and for the two-year period ended December 31, 2006, previously included in Discovery Communications, Inc.'s registration statement on Form S-4, as amended, dated August 6, 2008, are filed as Exhibit 99.5 hereto and incorporated herein by this reference.

(d) Exhibits.

| Exhibit No. | Description |
|---|---|
| **14.1*** | Code of Business Conduct and Ethics |
| **16.1*** | Letter from KPMG to the U.S. Securities and Exchange Commission dated September 23, 2008 |
| **23.1** | Consent of Independent Registered Public Accounting Firm |
| **99.1*** | Information in response to Item 5.02 |
| **99.2*** | Information describing the amendments to the 2005 Incentive Plan |
| **99.3*** | Press Release dated September 17, 2008 |
| **99.4** | Unaudited condensed consolidated financial statements of Discovery Communications Holding, LLC as of June 30, 2008 and for the six-month period ended June 30, 2008 and the period from May 15, 2007 through June 30, 2007, and of Discovery Communications, Inc. (the predecessor entity to Discovery Communications Holding, LLC, and not the current Company) for the period from January 1, 2007 through May 14, 2007 |
| **99.5** | Audited consolidated financial statements of Discovery Communications Holding, LLC as of December 31, 2007 and for the period from May 15, 2007 through December 31, 2007, and of Discovery Communications, Inc. (the predecessor entity to Discovery Communications Holding, LLC, and not the current Company) as of December 31, 2006 and for the period from January 1, 2007 through May 14, 2007 and for the two-year period ended December 31, 2006 |

* Previously filed as an exhibit to the initial Current Report on Form 8-K dated September 17, 2008.

**SIGNATURE**

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

Discovery Communications, Inc.

Dated: November 25, 2008

By: /s/ Bradley E. Singer
Name: Bradley E. Singer
Title: Senior Executive Vice President,
Chief Financial Officer

## EXHIBIT INDEX

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* Previously filed as an exhibit to the initial Current Report on Form 8-K dated September 17, 2008.

**EXHIBIT 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-154312 and 333-153586) of Discovery Communications, Inc. of our reports dated February 14, 2008, relating to the financial statements of Discovery Communications Holding, LLC and Discovery Communications, Inc. which appear in this Current Report on Form 8-K/A.

/s/ PricewaterhouseCoopers LLP

McLean, VA
November 25, 2008

EXHIBIT 99.4

**DISCOVERY COMMUNICATIONS HOLDING, LLC**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(unaudited; amounts in millions, except unit amounts)**

| | Successor | |
|---|---|---|
| | **June 30, 2008** | **December 31, 2007** |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 82 | $ 45 |
| Accounts receivable, net of allowances of $22 and $22 | 781 | 742 |
| Content rights, net | 79 | 79 |
| Other current assets | 196 | 211 |
| Total current assets | 1,138 | 1,077 |
| Investments in and advances to unconsolidated affiliates | 89 | 101 |
| Noncurrent content rights, net | 1,107 | 1,048 |
| Property and equipment, net | 409 | 397 |
| Goodwill | 4,867 | 4,870 |
| Intangible assets, net | 153 | 182 |
| Other assets | 242 | 285 |
| Total assets | $ 8,005 | $ 7,960 |
| **LIABILITIES, REDEEMABLE INTERESTS IN SUBSIDIARIES, AND MEMBERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 405 | $ 533 |
| Current portion of long-term debt | 248 | 32 |
| Other current liabilities | 257 | 285 |
| Total current liabilities | 910 | 850 |
| Long-term debt | 3,836 | 4,109 |
| Derivative financial instruments | 51 | 49 |
| Other long-term liabilities | 225 | 195 |
| Total liabilities | 5,022 | 5,203 |
| Redeemable interests in subsidiaries | 49 | 49 |
| **Members' equity** | | |
| Member units; 51,119 units issued; 37,800 units outstanding | 2,533 | 2,533 |
| Accumulated other comprehensive loss | (7) | (10) |
| Retained earnings | 408 | 185 |
| Total members' equity | 2,934 | 2,708 |
| Total liabilities, redeemable interests in subsidiaries, and members' equity | $ 8,005 | $ 7,960 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**DISCOVERY COMMUNICATIONS HOLDING, LLC**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(unaudited; amounts in millions)**

| | Successor | | Predecessor |
|---|---|---|---|
| | Six Months Ended June 30, 2008 | May 15, 2007 Through June 30, 2007 | January 1, 2007 Through May 14, 2007 |
| **REVENUES** | | | |
| Advertising | $ 682 | $ 177 | $ 470 |
| Distribution | 820 | 186 | 547 |
| Other | 157 | 34 | 82 |
| Total revenues | 1,659 | 397 | 1,099 |
| **OPERATING COSTS AND EXPENSES** | | | |
| Cost of revenues, exclusive of depreciation and amortization listed below | 468 | 122 | 375 |
| Selling, general and administrative | 606 | 158 | 473 |
| Depreciation and amortization | 78 | 16 | 48 |
| Exit and restructuring costs | 4 | 1 | 11 |
| Asset impairments | — | — | 26 |
| Gain from business disposition | — | (135) | — |
| Total operating costs and expenses | 1,156 | 162 | 933 |
| Operating income | 503 | 235 | 166 |
| **OTHER (EXPENSE) INCOME** | | | |
| Equity in (loss) earnings of unconsolidated affiliates | (1) | — | 4 |
| Interest expense, net | (135) | (38) | (69) |
| Other income, net | 4 | 4 | 2 |
| Total other (expense), net | (132) | (34) | (63) |
| **INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTERESTS** | 371 | 201 | 103 |
| Income tax (expense) benefit | (140) | 12 | (52) |
| Minority interests in consolidated subsidiaries, net of tax | (8) | — | (1) |
| **NET INCOME FROM CONTINUING OPERATIONS** | 223 | 213 | 50 |
| **NET LOSS FROM DISCONTINUED OPERATIONS** | — | (20) | (13) |
| **NET INCOME** | $ 223 | $ 193 | $ 37 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**DISCOVERY COMMUNICATIONS HOLDING, LLC**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(unaudited; amounts in millions)**

| | Successor | | Predecessor |
|---|---|---|---|
| | Six Months Ended June 30, 2008 | May 15, 2007 Through June 30, 2007 | January 1, 2007 Through May 14, 2007 |
| **OPERATING ACTIVITIES** | | | |
| Net income | $ 223 | $ 193 | $ 37 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 78 | 17 | 51 |
| Non-cash asset impairments | — | 28 | 26 |
| Share-based compensation | 17 | 22 | 63 |
| Equity in loss (earnings) of unconsolidated affiliates | 1 | — | (4) |
| Deferred income taxes | 26 | (89) | 11 |
| Minority interests in consolidated subsidiaries, net of tax | 8 | — | 1 |
| Gain from business disposition | — | (135) | — |
| Other charges | 36 | 47 | 33 |
| Changes in operating assets and liabilities, net of business acquisitions: | | | |
| Accounts receivable, net | (34) | (16) | (30) |
| Content rights, net | (45) | 17 | (3) |
| Accounts payable and accrued liabilities | (115) | 47 | (93) |
| Deferred launch incentives | (6) | 1 | (198) |
| Other balance sheet changes | (16) | (40) | (26) |
| Cash provided by (used in) operating activities | 173 | 92 | (132) |
| **INVESTING ACTIVITIES** | | | |
| Business acquisitions, net of cash acquired | (7) | (37) | — |
| Acquisition of property and equipment | (24) | (12) | (25) |
| Redemption of interests in subsidiaries | — | — | (44) |
| Cash used in investing activities | (31) | (49) | (69) |
| **FINANCING ACTIVITIES** | | | |
| Net borrowings (repayments) on revolver loans | 92 | (236) | 211 |
| Payments of long-term debt and capital leases | (196) | (1) | (2) |
| Proceeds from issuance of long-term debt | — | 1,500 | — |
| Repurchase of member units | — | (1,285) | — |
| Other financing activities | (8) | (16) | (2) |
| Cash (used in) provided by financing activities | (112) | (38) | 207 |
| Effect of exchange rate changes on cash and cash equivalents | 7 | — | 4 |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | 37 | 5 | 10 |
| Cash and cash equivalents, beginning of period | 45 | 62 | 52 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $ 82 | $ 67 | $ 62 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**DISCOVERY COMMUNICATIONS HOLDING, LLC**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited)**

## 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

### Description of Business

Discovery Communications Holding, LLC ("DCH" or the "Company") is a leading global media and entertainment company that provides original and purchased programming across multiple distribution platforms in the United States (U.S.) and more than 170 other countries, including television networks offering customized programming in 35 languages. DCH also develops and sells consumer and educational products and services in the U.S. and internationally, and owns and operates a diversified portfolio of website properties and other digital and media sound services.

### Basis of Presentation

***Cox Transaction***

DCH was formed through a conversion completed by a predecessor company on May 14, 2007. As part of the conversion, the predecessor company became Discovery Communications, LLC ("DCL"), a wholly-owned subsidiary of DCH, and the former shareholders of the predecessor company, including Cox Communications Holdings, Inc. ("Cox"), Advance/Newhouse Programming Partnerships, and Discovery Holding Company ("DHC") became members of DCH. Immediately after this conversion, each of the members of DCH held the same ownership interests in DCH as their previous capital stock ownership interest had been in the predecessor company.

The formation of DCH required "pushdown" accounting and each investor's basis has been pushed down to DCH. The pushdown of the investors' bases resulted in the recording of approximately $4.6 billion of additional goodwill, which had been previously recorded on the investors' books. The application of push down accounting represents the termination of the predecessor reporting entity, and the creation of the successor entity, DCH. Accordingly, the results for the six months ended June 30, 2007 are required to be presented as two distinct periods. The "Predecessor" period refers to the period from January 1, 2007 through May 14, 2007, while the "Successor" period refers to the period from May 15, 2007 through June 30, 2007. Accordingly, a vertical black line is shown to separate the Company's financial statements between those of the Predecessor company for periods ended through May 14, 2007 and those of the Successor company for periods ended after May 14, 2007.

Subsequent to the formation of DCH, Cox exchanged its 25% ownership interest in DCH for all of the capital stock of a subsidiary of DCH that held the Travel Channel and travelchannel.com (collectively, the "Travel Business") and approximately $1.3 billion in cash. DHC retired the member interest previously owned by Cox. The distribution of the Travel Business, which was valued at $575 million, resulted in a $135 million tax-free gain included in continuing operations. The gain was net of $281 million in reporting unit goodwill and $160 million in net assets. The net impact to goodwill as a result of the pushdown of investor basis and disposition of the Travel Business was $4.3 billion.

Subsequent to the formation of DCH, the Company also acquired an additional 5% interest in Animal Planet L.P. ("APLP") from Cox for $37 million. This transaction increased the Company's ownership interest in APLP from 80% to 85% and was recorded as a step acquisition. The $37 million was recorded as brand intangibles of $7 million, affiliate relationships of $10 million, and goodwill of $17 million. The brand intangibles and affiliate relationships is being amortized over 10 years.

***Basis of Consolidation and Accounting for Investments***

The consolidated financial statements include 100% of the assets, liabilities, revenues, expenses, and cash flows of the reporting entity and all entities in which a controlling voting interest is held and variable interest entities required to be consolidated in accordance with U.S. generally accepted accounting principles. All significant inter-company accounts and transactions have been eliminated in consolidation.

The financial position and operating results of all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses are included as a component of accumulated other comprehensive loss.

Investments in companies in which the reporting entity has significant influence, but less than a controlling voting interest, are accounted for using the equity method. This is generally presumed to exist when the reporting entity owns between 20% and 50% of the investee.

The effects of changes in the reporting entity's ownership interest resulting from the issuance of equity capital by consolidated subsidiaries or equity investees to unaffiliated parties and certain other equity transactions recorded by consolidated subsidiaries or equity investees are accounted for as a capital transaction pursuant to the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 51, *Accounting for the Sales of Stock of a Subsidiary* ("SAB 51").

***Reclassifications and Revisions***

Certain reclassifications have been made to the prior year financial information to conform to the June 30, 2008 presentation. Additionally, during 2007 certain marketing costs were incorrectly classified between cost of revenues and selling, general and administrative expenses. The Company has revised its 2007 financial information to reclassify these marketing costs, which resulted in a net increase to cost of revenues with a corresponding decrease to selling, general and administrative expense of $2 million during the period January 1, 2007 through May 14, 2007. The reclassification did not have any effect an amounts previously reported for revenues, total operating costs and expenses, operating income, net income, or cash flow information.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes thereto. Actual results may differ from those estimates and could have a material impact on the consolidated financial statements.

Significant estimates inherent in the preparation of the consolidated financial statements include accounting for asset impairments, allowances for doubtful accounts, depreciation and amortization, business combinations, revenues, equity-based compensation, income taxes, content rights, and contingencies.

***Interim Financial Statements***

The condensed consolidated financial statements are unaudited; however, in the opinion of management, they contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position, the results of operations, and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles applicable to interim periods. The results of operations for any interim period are not necessarily indicative of results for the full year. The year-end condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the U.S. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of DCH for the year ended December 31, 2007, which are included in Discovery Communications, Inc.'s registration statement on Form S-4, as amended, dated August 6, 2008. Certain disclosures have been omitted from these condensed consolidated financial statements as DCH is not a publicly traded entity.

***Cash and Cash Equivalents***

Highly liquid investments with original maturities of ninety days or less are recorded as cash equivalents. Restricted cash in the amounts of $1 million and $8 million is included in other current assets as of June 30, 2008 and December 31, 2007, respectively. Book overdrafts representing outstanding checks in excess of funds on deposit are a component of accounts payable and total $1 million and $11 million as of June 30, 2008 and December 31, 2007, respectively.

***Treasury Units***

On May 14, 2007, DCH repurchased and retired Cox's ownership interest in the Company. In connection with the transaction, DCH recorded a $1.9 billion reduction to members' equity. Repurchased units are held in treasury and are presented as if retired.

## 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

### Accounting Pronouncements Adopted

On January 1, 2008, the Company adopted certain provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards ("Statement") No. 157, *Fair Value Measurements* ("FAS 157"), which establishes the authoritative definition of fair value, sets out a framework for measuring fair value, and expands the required disclosures about fair value measurement. FAS 157 was adopted on a prospective basis. The provisions of FAS 157 adopted on January 1, 2008 relate to financial assets and liabilities as well as other assets and liabilities carried at fair value on a recurring basis and did not have a material impact on the Company's consolidated financial statements. Information related to financial assets and liabilities as well as other assets and liabilities carried at fair value on a recurring basis is presented in Note 5. The provisions of FAS 157 related to other non-financial assets and liabilities will be effective for DCH on January 1, 2009, and will be applied prospectively. The Company is currently evaluating the impact that these additional FAS 157 provisions will have on the Company's consolidated financial statements.

On January 1, 2008, the Company adopted the provisions of FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities —Including an amendment of FASB Statement No. 115* ("FAS 159"), which permits entities to choose to measure certain financial instruments and other items at fair value. The fair value option generally may be applied instrument by instrument, is irrevocable, and is applied only to entire instruments and not to portions of instruments. The Company has not elected the fair value option for any additional financial instruments or other items under FAS 159.

### Accounting Pronouncements Not Yet Adopted

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset pursuant to FASB Statement No. 142, *Goodwill and Other Intangible Assets* ("FAS 142"). The provisions of FSP 142-3 will be effective for DCH on January 1, 2009, and will be applied prospectively. The Company is currently evaluating the impact that the provisions of FSP 142-3 will have on the Company's consolidated financial statements.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133*, as amended ("FAS 161"). FAS 161 amends and expands the disclosure requirements of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133"), to include information about how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The provisions of FAS 161 will be effective for DCH on January 1, 2009. The Company is currently evaluating the impact that the provisions of FAS 161 will have on the Company's consolidated financial statements.

In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations* ("FAS 141R"). This Statement requires, among other things, that companies: (i) expense business acquisition transaction costs, which are presently included in the cost of the acquisition, (ii) record an asset for in-process research and development, which is presently expensed at the time of the acquisition, (iii) record at fair value amounts for contingencies, including contingent consideration, as of the purchase date with subsequent adjustments recognized in operations, which is presently accounted for as an adjustment of purchase price, (iv) recognize decreases in valuation allowances on acquired deferred tax assets in operations, which are presently considered to be subsequent changes in consideration and are recorded as decreases in goodwill, and (v) measure at fair value any non-controlling interest in the acquired entity. The provisions of FAS 141R will be effective for DCH on January 1, 2009, and will be applied prospectively to new business combinations consummated on or subsequent to the effective date. Generally, the effects of FAS 141R will depend on future acquisitions.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("FAS 160"). FAS 160 establishes accounting and reporting standards for the non-controlling interest in a subsidiary, commonly referred to as minority interest. Among other matters, FAS 160 requires that non-controlling interests be reported within equity in the balance sheet and that the amount of consolidated net income attributable to the parent and to the non-controlling interest to be clearly presented in the statement of income. The provisions of FAS 160 will be effective for DCH on January 1, 2009, and will be applied prospectively, except for the presentation and disclosure requirements, which shall be applied retrospectively to all periods presented. The Company is currently evaluating the impact that the provisions of FAS 160 will have on the Company's consolidated financial statements.

In December 2007, the FASB issued EITF Issue No. 07-1, *Accounting for Collaborative Arrangements* ("EITF 07-1"). EITF 07-1 defines collaborative arrangements and establishes accounting and reporting requirements for transactions between participants in the arrangement and third parties. A collaborative arrangement is a contractual arrangement that involves a joint operating activity, for example an agreement to co-produce and distribute programming with another media company. The provisions of EITF 07-1 will be effective for DCH on January 1, 2009, and will be applied retrospectively to all periods presented. The Company is currently evaluating the impact that the provisions of EITF 07-1 will have on the Company's consolidated financial statements.

### 3. INVESTMENT IN THE OPRAH WINFREY NETWORK

On June 19, 2008, DCH entered into a 50%-50% joint venture with Oprah Winfrey and Harpo, Inc. ("Harpo") to rebrand Discovery Health Channel as OWN: The Oprah Winfrey Network ("OWN Network"). It is expected that Discovery Health will be rebranded as the OWN Network in late 2009.

Pursuant to the arrangement, DCH has committed to fund up to $100 million of the venture's operations through September 2011. To the extent funding the joint venture in excess of $100 million is necessary, the Company may provide additional funds through a member loan or require the venture to seek third party financing. DCH will contribute its interest in the Discovery Health Channel and certain DiscoveryHealth.com content. Harpo will contribute the Oprah.com website, which will serve as the platform for the venture website, and certain content. DCH and Harpo must make these contributions on the launch date unless it is mutually agreed that certain contributions will be made prior to the launch date for the benefit of the venture.

In connection with the formation of the OWN joint venture, DCH provided a put right to Harpo which is exercisable on four separate put exercise dates within 12.5 years of the Venture's formation date. The put arrangement provides Harpo with the right to require DCH to purchase its 50% ownership interest at fair market value up to a maximum put amount. The maximum put amount ranges between $100 million on the first put exercise date up to $400 million on the fourth put exercise date.

Through June 30, 2008, no significant contributions have been made to the venture. Voting control of the venture is shared by Harpo and the Company, but the Company has determined that this entity qualifies as a variable interest entity and has consolidated the venture as its primary beneficiary. As Harpo has not yet contributed any assets to the venture, the Company is recording 100% of the losses. During the six months ended June 30, 2008, the Company incurred transaction costs of $3 million related to the OWN joint venture.

### 4. DISCONTINUED OPERATIONS

During the quarter ended September 30, 2007, the Company closed its 103 Discovery Stores. The closing of the Discovery Stores was part of the Company's strategy to move product sales from brick-and-mortar stores to e-commerce and licensing operations. As there is no continuing involvement in the operations of the stores or no significant migration of retail customers, the financial results of the Discovery Stores have been presented as discontinued operations in the consolidated financial statements in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("FAS 144"), for 2007.

Summary financial data for the discontinued operations related to the Discovery Stores for the six months ended June 30, 2007 is as follows:

| | Successor<br>May 15, 2007 Through June 30, 2007 | Predecessor<br>January 1, 2007 Through May 14, 2007 |
|---|---|---|
| | (amounts in millions) | |
| Revenues | $ 16 | $ 27 |
| Loss from the operations of discontinued operations before income taxes | $ (40) | $ (18) |
| Net loss from the operations of discontinued operations | $ (20) | $ (13) |

No interest expense was allocated to discontinued operations for the periods presented herein since there was no debt specifically attributable to discontinued operations or that was required to be repaid following the closure of the Discovery Stores. For the successor period, the loss from the operations of discontinued operations before income taxes includes $8 million related to severance and other employee related costs, and $28 million related to asset impairment charges.

### 5. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted FAS 157 for all financial instruments accounted for at fair value on a recurring basis. In accordance with FAS 157, a fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. FAS 157 also established a three-tiered hierarchy that draws a distinction between market participant assumptions based on: (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2), and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3). The following table presents information about assets and liabilities required to be carried at fair value on a recurring basis as of June 30, 2008:

| | Successor | Successor — Fair Value Measurements as of June 30, 2008 Using: | | |
|---|---|---|---|---|
| | Fair Value as of June 30, 2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | (amounts in millions) | | | |
| Assets | | | | |
| Available for sale securities | $ 15 | $ 15 | $ — | $ — |
| Deferred compensation plan assets | 38 | 38 | — | — |
| Liabilities | | | | |
| Derivatives | (51) | — | (51) | — |
| Deferred compensation plan liability | (38) | — | (38) | — |
| HSW International, Inc. liability | (43) | — | — | (43) |
| Long-term Incentive Plan liability | (142) | — | (142) | — |
| Redeemable interests in subsidiaries | (49) | — | — | (49) |
| | $ (270) | $ 53 | $ (231) | $ (92) |

For assets that are measured using quoted prices in active markets, the total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. Assets and liabilities that are measured using significant other observable inputs are primarily valued by reference to quoted prices of similar assets or liabilities in active markets, adjusted for any terms specific to that asset or liability.

In December 2007, DCH acquired HowStuffWorks.com (“HSW”) and a 49.5% interest in HSW International, Inc. (“HSWi”). Pursuant to the terms of the agreement, DCH has the option to: (i) distribute the HSWi stock to the former HSW shareholders, or (ii) sell the HSWi stock and distribute substantially all of the proceeds to former HSW shareholders. DCH recognized a liability for its estimated obligation with respect to the HSWi shares to the former HSW shareholders. HSWi shares are publicly traded on the Nasdaq Global Market. Based upon the volatility and thinly traded nature of HSWi’s stock, the Company does not believe the quoted market value of the underlying stock is indicative of fair value of the liability. The value of the HSWi liability was determined based on a discounted cash flow model using management’s best judgments with respect to discount rates and terminal values. DCH adjusts the liability each period to fair value through adjustments to earnings. The valuation considers forecasted operating results and market valuation factors. The estimated liability at June 30, 2008 was $43 million. As of June 30, 2008, DCH’s ownership interest in HSWi has been diluted to 42.8% as a result of HSWi issuing additional equity capital.

The Company estimates the redeemable interests in subsidiaries based on a contractual formula considering the projected results of applicable networks. Information related to the redeemable interests in subsidiaries is disclosed in Note 8.

DISCOVERY COMMUNICATIONS HOLDING, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited) — (continued)

The following table reconciles the beginning and ending balances of liabilities classified as Level 3 measurements during the six months ended June 30, 2008:

| | Successor — Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | |
|---|---|---|
| | HSWi Liability | Redeemable Interests in Subsidiaries |
| | (amounts in millions) | |
| Balance as of December 31, 2007 | $ (54) | $ (49) |
| Total gains: | | |
| Included in net income | 11 | — |
| Included in other comprehensive income | — | — |
| Purchases, issuances, settlements, net | — | — |
| Transfers in and/or out of Level 3 | — | — |
| Balance as of June 30, 2008 | $ (43) | $ (49) |
| Total gains for the six months ended June 30, 2008 included in net income related to liabilities still outstanding as of June 30, 2008 | $ 11 | $ — |

The total gains of $11 million for the six months ended June 30, 2008 included in net income were recorded in other income, net.

During the six months ended June 30, 2008, the Company recorded other-than-temporary impairment charges of $8 million related to its investment in HSWi, which was recorded in other income, net.

## 6. CONTENT RIGHTS

Content rights consisted of the following:

| | Successor | |
|---|---|---|
| | June 30, 2008 | December 31, 2007 |
| | (amounts in millions) | |
| Produced content rights | | |
| Completed | $ 1,272 | $ 1,347 |
| In-process | 249 | 195 |
| Co-produced content rights | | |
| Completed | 428 | 499 |
| In-process | 64 | 54 |
| Licensed content rights | | |
| Acquired | 203 | 209 |
| Prepaid | 28 | 22 |
| Content rights, at cost | 2,244 | 2,326 |
| Accumulated amortization | (1,058) | (1,199) |
| Content rights, net | 1,186 | 1,127 |
| Less: current portion | (79) | (79) |
| Non-current portion | $ 1,107 | $ 1,048 |

Amortization of content rights was recorded as a component of cost of revenues and was $315 million during the six months ended June 30, 2008, $84 million during the period May 15, 2007 through June 30, 2007, and $257 million during the period January 1, 2007 through May 14, 2007. Amortization included impairment charges for completed content of $4 million during the six months ended June 30, 2008, $7 million during the period May 15, 2007 through June 30, 2007, and $0 during the period January 1, 2007 through May 14, 2007. Amortization included write-offs of content that was in development of $10 million during the six months ended June 30, 2008, $5 million during the period May 15, 2007 through June 30, 2007, and $2 million during the period January 1, 2007 through May 14, 2007. The impairment charges and write-offs were the result of new programming leadership evaluating the Company' programming portfolio assets and concluding that certain programming no longer fit the strategy of the Company and would no longer be aired.

**7. DEBT**

Debt consisted of the following:

| | Successor | |
|---|---|---|
| | June 30, 2008 | December 31, 2007 |
| | (amounts in millions) | |
| $1.0 billion Term Loan A, due quarterly December 2008 to October 2010 | $ 1,000 | $ 1,000 |
| $1.5 billion Term Loan B, due quarterly September 2007 to May 2014 | 1,485 | 1,492 |
| $1.6 billion Revolving Loan, due October 2010 | 469 | 338 |
| €260 million Revolving Loan, due April 2009 | 63 | 94 |
| 8.06% Senior Notes, semi-annual interest, due March 2008 | — | 180 |
| 7.45% Senior Notes, semi-annual interest, due September 2009 | 55 | 55 |
| 8.37% Senior Notes, semi-annual interest, due March 2011 | 220 | 220 |
| 8.13% Senior Notes, semi-annual interest, due September 2012 | 235 | 235 |
| Floating Rate Senior Notes, semi-annual interest, due December 2012 | 90 | 90 |
| 6.01% Senior Notes, semi-annual interest, due December 2015 | 390 | 390 |
| £10 million Uncommitted Facility, due August 2008 | — | 9 |
| Obligations under capital leases | 76 | 37 |
| Other notes payable | 1 | 1 |
| Subtotal | 4,084 | 4,141 |
| Current portion | (248) | (32) |
| Total long-term debt | $ 3,836 | $ 4,109 |

During the six months ended June 30, 2008, the Company had net borrowings of $92 million under its revolving loans and paid off $188 million in long-term debt, excluding capital lease payments. Future principal payments under the debt arrangements, excluding obligations under capital leases and other notes payable, as of June 30, 2008, are as follows: $70 million during the remainder of 2008, $509 million in 2009, $1.0 billion in 2010, $235 million in 2011, $340 million in 2012, $15 million in 2013, and $1.8 billion thereafter.

**8. REDEEMABLE INTEREST IN SUBSIDIARIES**

**Animal Planet L.P.**

One of DCH's stockholders owned 44,000 senior preferred partnership units of Animal Planet L.P. ("APLP"), which were redeemable. In January 2007, the Company exercised its right to purchase the APLP senior preferred partnership units for $44 million, plus accrued interest of $1 million.

**People & Arts Latin America and Animal Planet Channel Group**

DCH and the British Broadcasting Corporation (the "BBC") have formed several cable and satellite television network joint ventures to develop and distribute programming content. Generally, the ventures are 50%-50% owned by DCH and the BBC. In addition to its own funding requirements, DCH has assumed the BBC funding requirements, giving DCH preferential cash distribution with these ventures. DCH controls these ventures and consolidates them accordingly.

Pursuant to the terms of the venture agreements, the BBC has the right, but not the obligation, to require DCH to purchase the BBC's interest for cash if the People & Arts Latin America or the Animal Planet Channel Group (comprised of Animal Planet Europe, Animal Planet Asia, and Animal Planet Latin America) do not achieve certain financial performance benchmarks. A range for the estimated redemption value is based on a contractual formula considering the projected results of each network within the channel group that is measured every three years commencing on December 31, 2002. DCH has accreted to an estimated redemption value of $49 million as of June 30, 2008 and December 31, 2007, which is management's best estimate within the range, based on certain assumptions and legal interpretations for the contractual formula. Changes in contractual interpretations and assumptions used to estimate the redemption value could materially impact current estimates. DCH recorded no accretion to the redemption value during the six months ended June 30, 2008. Accretion during the period from May 15, 2007 to June 30, 2007 was $0 and was $1 million during the period from January 1, 2007 to May 14, 2007.

**Oprah Winfrey Network**

As described in Note 3, in connection with the formation of the OWN joint venture, DCH provided a put right to Harpo which is exercisable on four separate put exercise dates within 12.5 years of the Venture's formation date. The put arrangement provides Harpo with the right to require DCH to purchase its 50% ownership interest at fair market value up to a maximum put amount. The maximum put amount ranges between $100 million on the first put exercise date up to $400 million on the fourth put exercise date.

## 9. EXIT AND RESTRUCTURING COSTS

Exit and restructuring costs consisted of the following:

| | Successor | | Predecessor |
|---|---|---|---|
| | Six Months Ended June 30, 2008 | May 15, 2007 Through June 30, 2007 | January 1, 2007 Through May 14, 2007 |
| | (amounts in millions) | | |
| Contract termination costs | $ 4 | $ — | $ — |
| Employee relocations / terminations | — | 1 | 11 |
| Total exit and restructuring costs | $ 4 | $ 1 | $ 11 |

Contract termination costs related to the closings of a distribution center and store headquarter offices along with the transition of certain services to third-party service providers. Employee relocation and terminations costs were the result of adjustments to better align DCH's organizational structure with the Company's new strategic priorities and to respond to continuing changes within the media industry.

Changes in the Company's liability with respect to exit and restructuring costs from December 31, 2007 to June 30, 2008 are set forth below:

| | Successor | | |
|---|---|---|---|
| | Contract Termination Costs | Employee Relocations/ Terminations | Total |
| | (amounts in millions) | | |
| Liability as of December 31, 2007 | $ — | $ 11 | $ 11 |
| Net accruals | 4 | — | 4 |
| Cash paid | — | (8) | (8) |
| Remaining liability as of June 30, 2008 | $ 4 | $ 3 | $ 7 |

As of June 30, 2008, the total exit and restructuring related accruals of $7 million were classified as a current liability. The Company does not expect to incur additional costs with respect to these particular activities.

## 10. COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries lease offices, satellite transponders, and certain equipment under capital and operating lease arrangements.

The Company has several investments in joint ventures. From time-to-time the Company agrees to fund the operations of the ventures on an as needed basis.

DCH has certain contingent obligations in connection with the acquisition of Treehugger.com totaling up to $6 million over two years payable in the event specific business metrics are achieved.

In December 2007, DCH acquired HSW and a 49.5% interest in HSWi. Pursuant to the terms of the agreement, DCH has the option to: (i) distribute the HSWi stock to the former HSW shareholders, or (ii) sell the HSWi stock and distribute substantially all of the proceeds to former HSW shareholders. DCH recognized a liability for its estimated obligation with respect to the HSWi shares to the former HSW shareholders.

In the normal course of business, the Company has pending claims and legal proceedings. It is the opinion of the Company's management, based on information available at this time, that none of the other current claims and proceedings will have a material effect on the Company's consolidated financial statements.

## 11. INCOME TAXES

The Company's effective tax rate related to income from continuing operations was 38% for the six months ended June 30, 2008 (6%) during the period May 15, 2007 through June 30, 2007, and 51% during the period January 1, 2007 through May 14, 2007. The Company's effective tax rate for the six months ended June 30, 2008 differed from the federal income tax rate of 35% primarily due to state taxes. The Company's effective tax rate for the period May 15, 2007 through June 30, 2007 varied from the federal income tax rate of 35% primarily due to foreign and state taxes and due to the tax-free treatment of the gain from disposition and release of deferred tax liabilities related to Travel Channel. The Company's effective tax rate for the period January 1, 2007 through May 14, 2007 differed from the federal income tax rate of 35% primarily due to foreign and state taxes.

As of December 31, 2007, the Company's unrecognized tax benefit was $89 million. The balance decreased by $7 million during the six months ended June 30, 2008 mainly as a result of filing a non-U.S. amended prior year income tax returns. The reduction was partially offset by addition to tax positions for the current year. It is reasonably possible that the total amount of unrecognized tax benefits related to tax positions taken (or expected to be taken) on 2005, 2006, 2007 and 2008 non-U.S. tax returns could decrease by as much as $28 million within the next twelve months as a result of settlement of audit issues and/or payment of uncertain tax liabilities.

During the six months ended June 30, 2008, the Company updated its forecasted estimated income. Based on the reforecast, the Company concluded that it is more beneficial in 2008 to claim foreign tax credits rather than foreign income tax deductions on its 2008 federal income tax return. The conversion reduced the effective tax rate for the six months ended June 30, 2008 by 6%.

As part of the conversion from foreign income tax deduction to claiming foreign tax credit, a deferred tax asset of approximately $31 million was created for the potential foreign tax credit related to the tax liability under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("FIN 48"). The Company established a valuation allowance of approximately $31 million for deferred tax assets related to the potential foreign tax credit. The valuation allowance is needed because we believe it is more likely than not that the deferred tax asset will be not realized.

## 12. SUPPLEMENTAL DISCLOSURES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Cash Flows

Additional financial information with respect to cash payments and receipts made and received are as follows:

| | Successor | | Predecessor |
|---|---|---|---|
| | Six Months Ended June 30, 2008 | May 15, 2007 Through June 30, 2007 | January 1, 2007 Through May 14, 2007 |
| | (amounts in millions) | | |
| Cash payments made for interest expense | $ 138 | $ 32 | $ 78 |
| Cash payments received for interest income | 1 | — | — |
| Cash interest payments, net | $ 137 | $ 32 | $ 78 |
| Cash payments made for income tax expense | $ 120 | $ 8 | $ 17 |
| Cash payments received for income tax refunds | 17 | — | — |
| Cash tax payments, net | $ 103 | $ 8 | $ 17 |

The consolidated statements of cash flows exclude equipment purchases acquired under capital lease arrangements in the amounts of $46 million during the six months ended June 30, 2008 and $2 million during the period January 1, 2007 through May 14, 2007.

**Interest Expense, Net**

Interest expense, net consisted of the following:

| | Successor | | Predecessor |
|---|---|---|---|
| | Six Months Ended June 30, 2008 | May 15, 2007 Through June 30, 2007 | January 1, 2007 Through May 14, 2007 |
| | (amounts in millions) | | |
| Interest income | $ 1 | $ — | $ — |
| Interest expense | 136 | 38 | 69 |
| Interest expense, net | $ 135 | $ 38 | $ 69 |

**Comprehensive Income (Loss)**

Comprehensive income consisted of the following:

| | Successor | | Predecessor |
|---|---|---|---|
| | Six Months Ended June 30, 2008 | May 15, 2007 Through June 30, 2007 | January 1, 2007 Through May 14, 2007 |
| | (amounts in millions) | | |
| Net income | $ 223 | $ 193 | $ 37 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustments, net | 7 | 2 | 8 |
| Change in market value of financial instruments, net | (4) | 4 | 1 |
| Comprehensive income, net | $ 226 | $ 199 | $ 46 |

**13. RELATED PARTY TRANSACTIONS**

The Company identifies related parties as investors in their consolidated subsidiaries, the Company's joint venture partners and equity investments, and the Company's executive management and directors and their respective affiliates. Transactions with related parties typically result from distribution of networks, mainly with Discovery Japan, Inc. and Discovery Channel Canada, and production of content primarily with BBC affiliates. The following is a summary of balances related to transactions with related parties:

| | Successor | | Predecessor |
|---|---|---|---|
| | Six Months Ended June 30, 2008 | May 15, 2007 Through June 30, 2007 | January 1, 2007 Through May 14, 2007 |
| | (amounts in millions) | | |
| Revenues | $ 13 | $ 15 | $ 47 |
| Operating costs and expenses | $ 36 | $ 7 | $ 32 |

| | Successor | |
|---|---|---|
| | June 30, 2008 | December 31, 2007 |
| | (amounts in millions) | |
| Accounts receivable | $ 5 | $ 7 |
| Accounts payable | $ — | $ 1 |
| Capital lease obligations | $ 10 | $ 11 |

## 14. SUBSEQUENT EVENTS

### Newhouse Transaction and Ascent Media Corporation Spin-Off

On September 17, 2008, a new entity, Discovery Communications, Inc. ("DCI") was formed in connection with DHC and Advance/Newhouse Programming Partnership ("Advance/Newhouse") combining their respective interests in DCH and exchanging those interests with DCI (the "Newhouse Transaction"). Prior to the Newhouse Transaction, DCH was owned approximately 66 2/3% by DHC and 33 1/3% by Advance/Newhouse. The Newhouse Transaction was completed as follows:

• On September 17, 2008, DHC completed the spin-off to its shareholders of Ascent Media Corporation ("AMC"), a subsidiary holding the cash and businesses of DHC, except for certain businesses that provide sound, music, mixing, sound effects, and other related services under brand names such as Sound One, POP Sound, Soundelux and Todd A-O (which businesses remained with DCI following the completion of the Newhouse Transaction) (the "AMC spin-off");

• On September 17, 2008, immediately following the AMC spin-off, DHC merged with a transitory merger subsidiary of DCI, and DHC's existing shareholders received common stock of DCI; and

• On September 17, 2008, immediately following the DHC exchange of shares for DCI, Advance/Newhouse contributed its interests in DCH and Animal Planet to DCI in exchange for Series A and Series C convertible preferred stock of DCI that are convertible at any time into DCI common stock initially representing 33 1/3% of the outstanding shares of DCI common stock.

As a result of the Newhouse Transaction, DHC and DCH each became a wholly-owned subsidiary of DCI. Because Advance/Newhouse was a 33 1/3% owner of DCH prior to the completion of the Newhouse Transaction and is a 33 1/3% owner of DCI (whose only significant asset is 100% of DCH) immediately following completion of the Newhouse Transaction, there was no effective change in ownership. Pursuant to Financial Accounting Standards Board ("FASB") Technical Bulletin No. 85-5, *Issues Relating to Accounting for Business Combinations* ("FTB 85-5"), DCI accounted for the Newhouse Transaction as a non-substantive merger, and therefore, the Newhouse Transaction was recorded at the investors' historical bases. At the conclusion of the Newhouse Transaction, DCI became the reporting entity.

### Debt

Subsequent to June 30, 2008, the Company made net repayments of $108 million and principal payments of $4 million on its revolving loans and long-term debt, respectively.

**EXHIBIT 99.5**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Discovery Communications, Inc.:

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of operations, of changes in stockholders' deficit, and of cash flows, present fairly, in all material respects, the financial position of Discovery Communications, Inc. and its subsidiaries at December 31, 2006, and the results of their operations and their cash flows for the period from January 1, 2007 through May 14, 2007, and for each of the two years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 16 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions effective January 1, 2007.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 14, 2008

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Members of
Discovery Communications Holding, LLC:

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of operations, of changes in members' equity, and of cash flows, present fairly, in all material respects, the financial position of Discovery Communications Holding, LLC and its subsidiaries at December 31, 2007 and the results of their operations and their cash flows for the period from May 15, 2007 through December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 14, 2008

**DISCOVERY COMMUNICATIONS HOLDING, LLC**

**Consolidated Balance Sheets**

| | Successor Company December 31, 2007 | Predecessor Company December 31, 2006 |
|---|---|---|
| | in thousands, except share data | |
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 44,951 | $ 52,263 |
| Accounts receivable, less allowances of $22,419 and $25,175 | 741,745 | 657,552 |
| Inventories | 10,293 | 35,716 |
| Deferred income taxes | 103,723 | 76,156 |
| Content rights, net | 79,162 | 64,395 |
| Other current assets | 97,359 | 84,554 |
| Total current assets | 1,077,233 | 970,636 |
| Property and equipment, net | 397,430 | 424,041 |
| Content rights, net, less current portion | 1,048,193 | 1,253,553 |
| Deferred launch incentives | 242,655 | 207,032 |
| Goodwill | 4,870,187 | 365,266 |
| Intangibles, net | 181,656 | 107,673 |
| Investments in and advances to unconsolidated affiliates | 100,724 | 15,564 |
| Other assets | 42,352 | 32,788 |
| **TOTAL ASSETS** | $ 7,960,430 | $ 3,376,553 |
| **LIABILITIES AND MEMBERS' EQUITY/STOCKHOLDERS' DEFICIT** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 267,818 | $ 316,804 |
| Accrued payroll and employee benefits | 183,823 | 122,431 |
| Launch incentives payable | 1,544 | 17,978 |
| Content rights payable | 56,334 | 57,694 |
| Current portion of long-term incentive plan liabilities | 141,562 | 43,274 |
| Current portion of long-term debt | 32,006 | 7,546 |
| Income taxes payable | 23,629 | 55,264 |
| Unearned revenue | 78,155 | 68,339 |
| Other current liabilities | 65,624 | 45,194 |
| Total current liabilities | 850,495 | 734,524 |
| Long-term debt, less current portion | 4,109,085 | 2,633,237 |
| Derivative financial instruments, less current portion | 49,110 | 8,282 |
| Launch incentives payable, less current portion | 6,114 | 10,791 |
| Long-term incentive plan liabilities, less current portion | — | 41,186 |
| Content rights payable, less current portion | 2,459 | 3,846 |
| Deferred income taxes | 10,619 | 46,289 |
| Other liabilities | 175,565 | 64,861 |
| Total liabilities | 5,203,447 | 3,543,016 |
| Mandatorily redeemable interests in subsidiaries | 48,721 | 94,825 |
| Commitments and contingencies | | |
| **Members' Equity/Stockholders' deficit** | | |
| Class A common stock; $.01 par value; zero shares authorized, issued or outstanding at December 31, 2007; 100,000 shares authorized, 51,119 shares issued, less 719 shares of treasury stock at December 31, 2006 | — | 1 |
| Class B common stock; $.01 par value; zero shares authorized, issued or outstanding at December 31, 2007; 60,000 shares authorized, 50,615 shares issued and held in treasury stock at December 31, 2006 | — | — |
| Additional paid-in capital | — | 21,093 |
| Members' equity (51,119 member units issued, less 13,319 repurchased and retired) | 2,533,694 | — |
| Retained earnings (deficit) | 184,712 | (306,135) |
| Accumulated other comprehensive (loss) income | (10,144) | 23,753 |
| Total members' equity/stockholders' deficit | 2,708,262 | (261,288) |
| **TOTAL LIABILITIES AND MEMBERS' EQUITY/STOCKHOLDERS' DEFICIT** | $ 7,960,430 | $ 3,376,553 |

The accompanying notes are an integral part of these consolidated financial statements.

## DISCOVERY COMMUNICATIONS HOLDING, LLC

### Consolidated Statements of Operations

| | Successor Company | Predecessor Company | | |
|---|---|---|---|---|
| | May 15, 2007 through December 31, 2007 | January 1, 2007 through May 14, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 |
| | | | in thousands | |
| **OPERATING REVENUE** | | | | |
| Advertising | $ 874,894 | $ 470,139 | $ 1,243,500 | $ 1,187,823 |
| Distribution | 930,386 | 547,093 | 1,434,901 | 1,198,686 |
| Other | 222,626 | 82,195 | 205,270 | 157,849 |
| Total operating revenue | 2,027,906 | 1,099,427 | 2,883,671 | 2,544,358 |
| **OPERATING EXPENSES** | | | | |
| Cost of revenue, exclusive of depreciation and amortization shown below | 791,545 | 375,032 | 1,023,187 | 872,309 |
| Selling, general and administrative | 822,665 | 473,289 | 1,152,951 | 1,013,770 |
| Depreciation and amortization | 82,807 | 47,769 | 122,037 | 112,653 |
| Exit and restructuring costs | 9,424 | 10,999 | — | — |
| Asset impairments | — | 26,174 | — | — |
| Gain from disposition of business | (134,671) | — | — | — |
| Total operating expenses | 1,571,770 | 933,263 | 2,298,175 | 1,998,732 |
| **INCOME FROM OPERATIONS** | 456,136 | 166,164 | 585,496 | 545,626 |
| **OTHER INCOME (EXPENSE)** | | | | |
| Interest, net | (180,157) | (68,600) | (194,255) | (184,585) |
| Realized and unrealized (losses) gains from non-hedged derivative instruments, net | (10,986) | 2,350 | 22,558 | 22,499 |
| Minority interests in consolidated subsidiaries | (7,133) | (1,133) | (2,451) | (43,696) |
| Equity in earnings of unconsolidated affiliates | 5,093 | 3,529 | 7,060 | 4,660 |
| Other, net | (448) | (335) | 1,467 | 9,111 |
| Total other expense, net | (193,631) | (64,189) | (165,621) | (192,011) |
| **INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES** | 262,505 | 101,975 | 419,875 | 353,615 |
| Income tax expense | 25,303 | 52,163 | 190,381 | 173,427 |
| **INCOME FROM CONTINUING OPERATIONS** | 237,202 | 49,812 | 229,494 | 180,188 |
| **DISCONTINUED OPERATIONS** | | | | |
| Loss from discontinued operations, net of income tax benefit | (52,490) | (12,533) | (22,318) | (20,568) |
| **LOSS FROM DISCONTINUED OPERATIONS** | (52,490) | (12,533) | (22,318) | (20,568) |
| **NET INCOME** | $ 184,712 | $ 37,279 | $ 207,176 | $ 159,620 |

The accompanying notes are an integral part of these consolidated financial statements.

**DISCOVERY COMMUNICATIONS HOLDING, LLC**

**Consolidated Statements of Cash Flows**

| | Successor Company | Predecessor Company | | |
|---|---|---|---|---|
| | May 15, 2007 through December 31, 2007 | January 1, 2007 through May 14, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 |
| | | | in thousands | |
| **OPERATING ACTIVITIES** | | | | |
| Net income | $ 184,712 | $ 37,279 | $ 207,176 | $ 159,620 |
| Adjustments to reconcile net income to cash provided by (used in) operations: | | | | |
| Depreciation and amortization | 82,944 | 51,012 | 133,634 | 123,209 |
| Noncash asset impairments | 28,264 | 26,174 | — | — |
| Amortization of deferred launch incentives and representation rights | 58,425 | 37,158 | 77,778 | 83,411 |
| Provision (reversal) for losses on accounts receivable | (2) | 1,855 | 3,691 | 12,217 |
| Expenses arising from long-term incentive plans | 78,527 | 62,850 | 39,233 | 49,465 |
| Equity in earnings of unconsolidated affiliates | (5,093) | (3,529) | (7,060) | (4,660) |
| Deferred income taxes | (70,978) | 10,511 | 108,903 | 109,383 |
| Realized and unrealized gains on derivative financial instruments, net | 10,986 | (2,350) | (22,558) | (22,499) |
| Gain from disposition of business | (134,671) | — | — | — |
| Non-cash minority interest charges | 7,133 | 1,133 | 2,451 | 43,696 |
| Gain on sale of investments | — | — | (1,467) | (12,793) |
| Other non-cash (income) charges | 1,733 | (4,263) | 2,447 | 9,675 |
| *Changes in assets and liabilities, net of business combinations and dispositions:* | | | | |
| Accounts receivable | (45,808) | (29,507) | (84,598) | (37,207) |
| Inventories | 21,666 | 4,805 | (4,560) | 1,853 |
| Other assets | 27,682 | (23,872) | (7,434) | (18,748) |
| Content rights, net of payables | 110,811 | (2,689) | (84,377) | (108,155) |
| Accounts payable and accrued liabilities | 119,769 | (93,260) | 73,646 | 47,913 |
| Representation rights | — | — | 93,233 | (6,000) |
| Deferred launch incentives | (25,623) | (197,624) | (49,386) | (35,731) |
| Long-term incentive plan liabilities | (76,315) | (7,773) | (841) | (325,756) |
| Cash provided by (used in) operations | 374,162 | (132,090) | 479,911 | 68,893 |
| **INVESTING ACTIVITIES** | | | | |
| Acquisition of property and equipment | (55,965) | (24,588) | (90,138) | (99,684) |
| Business combinations, net of cash acquired | (306,094) | — | (194,905) | (400) |
| Purchase of intangibles | — | — | — | (583) |
| Investments in and advances to unconsolidated affiliates | — | — | — | (363) |
| Redemption of interests in subsidiaries | — | (44,000) | (180,000) | (92,874) |
| Proceeds from sale of investments | — | — | 1,467 | 14,664 |
| Cash used in investing activities | (362,059) | (68,588) | (463,576) | (179,240) |
| **FINANCING ACTIVITIES** | | | | |
| Proceeds from issuance of long-term debt | 1,286,362 | 211,277 | 316,813 | 1,785,955 |
| Payments of long-term debt and capital leases | (11,742) | (2,356) | (307,030) | (1,697,068) |
| Deferred financing fees | (4,690) | (16) | (1,144) | (4,810) |
| Repurchase of member's interest | (1,284,544) | — | — | — |
| Contributions from minority shareholders | — | — | — | 603 |
| Other financing | (17,590) | (2,473) | (9,963) | 32,153 |
| Cash (used in) provided by financing activities | (32,204) | 206,432 | (1,324) | 116,833 |
| Effect of exchange rate changes on cash and cash equivalents | 2,658 | 4,377 | 2,761 | 3,723 |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | (17,443) | 10,131 | 17,772 | 10,209 |
| Cash and cash equivalents, beginning of period | 62,394 | 52,263 | 34,491 | 24,282 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $ 44,951 | $ 62,394 | $ 52,263 | $ 34,491 |

The accompanying notes are an integral part of these consolidated financial statements.

## DISCOVERY COMMUNICATIONS HOLDING, LLC

## Consolidated Statements of Changes in Member's Equity and Stockholders' Deficit

| | Class A Common Stock | | | | Accumulated Other Comprehensive Income (Loss) | | | |
|---|---|---|---|---|---|---|---|---|
| | At Par | Redeemable | Additional Paid-in Capital/ Members' Equity | Retained Earnings (Deficit) | Foreign Currency Translation | Unrealized Gain (Loss) on Investment | Unrealized Gain (Loss) from Hedging Activities | TOTAL |
| | | | | in thousands | | | | |
| **Predecessor Company:** | | | | | | | | |
| **Balance, December 31, 2004** | $ 1 | $ — | $ 21,093 | $ (672,931) | $ 22,732 | $ 1,179 | $ — | $ (627,926) |
| Comprehensive income Net income | | | | 159,620 | | | | |
| Foreign currency translation, net of tax of $9.6 million | | | | | (16,017) | | | |
| Unrealized loss on investments, net of tax of $0.1 million | | | | | | (101) | | |
| Unamortized gain on cash flow hedge, net of tax of $1.3 million | | | | | | | 2,066 | |
| Total comprehensive income | | | | | | | | 145,568 |
| **Balance, December 31, 2005** | $ 1 | $ — | $ 21,093 | $ (513,311) | $ 6,715 | $ 1,078 | $ 2,066 | $ (482,358) |
| Comprehensive income | | | | | | | | |
| Net income | | | | $ 207,176 | | | | |
| Foreign currency translation, net of tax of $8.8 million | | | | | $ 14,458 | | | |
| Unrealized loss on investments, net of tax of $0.2 million | | | | | | $ (355) | | |
| Amortization of gain on cash flow hedge, net of tax of $0.1 million | | | | | | | $ (209) | |
| Total comprehensive income | | | | | | | | $ 221,070 |
| **Balance, December 31, 2006** | $ 1 | $ — | $ 21,093 | $ (306,135) | $ 21,173 | $ 723 | $ 1,857 | $ (261,288) |
| Comprehensive income | | | | | | | | |
| Net income for the period January 1, 2007 through May 14, 2007 | | | | 37,279 | | | | |
| Foreign currency translation, net of tax of $4.7 million | | | | | 7,691 | | | |
| Unrealized gain on investments, net of tax of $0.9 million | | | | | | 1,552 | | |
| Amortization of gain on cash flow hedge | | | | | | | (77) | |
| Cumulative effect for the adoption of FIN 48 | | | | (5,011) | | | | |
| Total comprehensive income | | | | | | | | 41,434 |
| **Balance, May 14, 2007** | $ 1 | $ — | $ 21,093 | $ (273,867) | $ 28,864 | $ 2,275 | $ 1,780 | $ (219,854) |
| **Successor Company:** | | | | | | | | |
| Formation of Successor Company Pushdown of investor basis | | | 4,392,804 | | | | | 4,392,804 |
| Comprehensive income | | | | | | | | |
| Net income for the period May 15, 2007 through December 31, 2007 | | | | 184,712 | | | | |
| Foreign currency translation, net of tax of $4.4 million | | | | | 7,354 | | | |
| Unrealized gain on investments, net of tax of $1.8 million | | | | | | 3,011 | | |
| Changes from hedging activities, net of tax of $12.2 million | | | | | | | (20,509) | |
| Total comprehensive income | | | | | | | | 174,568 |
| Repurchase of members' interest | | | (1,859,110) | | | | | (1,859,110) |
| **Balance, December 31, 2007** | | | $ 2,533,694 | $ 184,712 | $ 7,354 | $ 3,011 | $ (20,509) | $ 2,708,262 |

The accompanying notes are an integral part of these consolidated financial statements.

## DISCOVERY COMMUNICATIONS HOLDING, LLC

**Notes to Consolidated Financial Statements**

### 1. Basis of Presentation and Description of Business

***Basis of Presentation***

Discovery Communications Holding, LLC ("Discovery" or "the Company") was formed through a conversion completed by Discovery Communications, Inc. ("DCI" or "the Predecessor Company") on May 14, 2007. As part of the conversion, DCI became Discovery Communications, LLC ("DCL"), a wholly-owned subsidiary of Discovery, and the former shareholders of DCI, including Cox Communications Holdings, Inc. ("Cox"), Advance/Newhouse Programming Partnerships, and Discovery Holding Company ("DHC") became members of Discovery. Subsequent to this conversion, each of the members of Discovery held the same ownership interests in Discovery as their previous capital stock ownership interest had been in DCI.

The formation of Discovery required "pushdown" accounting and each shareholder's basis has been pushed down to Discovery. The pushdown of the investors' bases resulted in the recording of approximately $4.6 billion of additional goodwill, which had been previously recorded on the investors' books. No other basis differentials existed on the investors' books; therefore, no other assets or liabilities were adjusted. The application of push down accounting represents the termination of the predecessor reporting entity, DCI, and the creation of the successor reporting entity, Discovery. Accordingly, the results for the year ended December 31, 2007 are required to be presented as two distinct periods. The "Predecessor" period refers to the period from January 1 through May 14, 2007, while the "Successor" period refers to the period from May 15 through December 31, 2007. Accordingly, a vertical black line is shown to separate the Company financial statements from those of the Predecessor Company for periods ended prior to May 15, 2007. As the entire pushdown was associated with non-amortizable goodwill, there was no adjustment to the income statement during the Successor period as a result of this transaction.

Subsequent to the formation of Discovery, Cox exchanged its 25% ownership interest in Discovery for all of the capital stock of a subsidiary of Discovery that held the Travel Channel and travelchannel.com (collectively, the "Travel Business") and approximately $1.3 billion in cash. Discovery retired the membership interest previously owned by Cox. The distribution of the Travel Business, which was valued at $575.0 million, resulted in a $134.7 million tax-free gain included in continuing operations. The gain was net of $280.8 million in reporting unit goodwill and $159.5 million in net assets. The net impact to goodwill as a result of the pushdown of investor basis and disposition of the Travel Business was $4.3 billion.

***Description of Business***

Discovery is a global media and entertainment company that provides original and purchased cable and satellite television programming across multiple platforms in the United States and over 170 other countries. Discovery also develops and sells proprietary merchandise, other products and educational product lines in the United States and internationally. Discovery operates through three divisions: (1) U.S. networks, (2) international networks, and (3) Discovery commerce and education.

### 2. Summary of Significant Accounting Policies

***Principles of Consolidation***

The consolidated financial statements include the accounts of all majority-owned and controlled subsidiaries. In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by Financial Accounting Standards Board ("FASB") Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" as revised in December 2003 ("FIN 46R") and to assess whether it is the primary beneficiary of such entities. Variable Interest Entities ("VIEs")are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders possess rights not proportionate to their ownership. The equity method of accounting is used for affiliates over which the Company exercises significant influence but does not control.

All inter-company accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from those estimates and could have a material impact on the consolidated financial statements.

***Reclassifications and Revisions***

Certain reclassifications have been made to the financial information to conform to the June 30, 2008 presentation reported in Exhibit 99.4 to this Current Report on Form 8-K/A. Additionally, certain marketing costs were incorrectly classified between cost of revenues and selling, general and administrative. The Company has revised its financial information to reclassify these marketing costs, which resulted in a net decrease to cost of revenues with a corresponding increase to selling, general, and administrative expenses of $8.2 million during the period May 15, 2007 through December 31, 2007, a net increase to cost of revenues with a corresponding decrease to selling, general, and administrative expenses of $1.8 million during the period January 1, 2007 through May 14, 2007, and a net decrease to cost of revenues with a corresponding increase to selling, general, and administrative expenses of $9.6 million and $35.4 million during the years ended December 31, 2006 and 2005, respectively. The reclassifications did not have any effect on amounts previously reported for revenues, total operating expenses, operating income, net income, or cash flows.

***Recent Accounting Pronouncements***

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FASB Statement No. 115" ("FAS 159"). FAS 159 gives entities the irrevocable option to carry most financial assets and liabilities at fair value, with changes in fair value recognized in earnings. FAS 159 is effective for the Company as of the beginning of the Company's 2008 fiscal year. The Company expects to adopt fair value accounting for its equity investment in HSWi (see Note 4). The impact could be material to the financial statements depending upon changes in fair value. The Company is currently assessing the potential effect of FAS 159 on its other assets and liabilities.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. FAS 157 requires expanded disclosures about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. FAS 157 will be effective for the Company's 2008 fiscal year. The Company is currently assessing the potential effect of FAS 157 on its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("FAS 141R"). FAS 141R replaces Statement of Financial Accounting Standards No. 141, "Business Combinations" ("FAS 141"), although it retains the fundamental requirement in FAS 141 that the acquisition method of accounting be used for all business combinations. FAS 141R establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree, (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase and (c) determines what information to disclose regarding the business combination. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the Company's 2009 fiscal year.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("FAS 160"). FAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, commonly referred to as minority interest. Among other matters, FAS 160 requires (a) the noncontrolling interest be reported within equity in the balance sheet and (b) the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly presented in the statement of income. FAS 160 is effective for the Company's 2009 fiscal year. FAS 160 is to be applied prospectively, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. The Company is currently assessing the potential effect of FAS 160 on its financial statements.

***Revenue Recognition***

The Company derives revenue from three primary sources: (1) advertising revenue for commercial spots aired on the Company's networks and websites, (2) distribution revenue from cable system and satellite operators (distributors), and (3) Other, which is largely e-commerce and educational sales.

Advertising revenue is recorded net of agency commissions and audience deficiency liabilities in the period advertising spots are broadcast. Distribution revenue is recognized over the service period, net of launch incentives and other vendor consideration. E-commerce and educational product revenues are recognized either at the point-of-sale or upon product shipment. Educational service sales are generally recognized ratably over the term of the agreement.

***Advertising Costs***

The Company expenses advertising costs as incurred. Advertising costs of $107.7 million, $71.6 million, $207.7 million and $208.6 million were incurred from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively.

***Cash and Cash Equivalents***

Highly liquid investments with original maturities of ninety days or less are recorded as cash equivalents. Restricted cash of $7.6 million and $7.1 million is included in other current assets as of December 31, 2007 and 2006, respectively. Book overdrafts representing outstanding checks in excess of funds on deposit are a component of accounts payable and total $10.9 million and $30.9 million in 2007 and 2006, respectively.

***Derivative Financial Instruments***

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), requires every derivative instrument to be recorded on the balance sheet at fair value as either an asset or a liability. The statement also requires that changes in the fair value of derivatives be recognized currently in earnings unless specific hedge accounting criteria are met. The Company uses financial instruments designated as cash flow hedges. The effective changes in fair value of derivatives designated as cash flow hedges are recorded in accumulated other comprehensive income (loss). Amounts are reclassified from accumulated other comprehensive income (loss) as interest expense is recorded for debt. The Company uses the cumulative dollar offset method to assess effectiveness. To be highly effective, the ratio calculated by dividing the cumulative change in the value of the actual swap by the cumulative change in the hypothetical swap must be between 80% and 125%. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The Company uses derivatives instruments principally to manage the risk associated with the movements of foreign currency exchange rates and changes in interest rates that will affect the cash flows of its debt transactions. See Note 17 for additional information regarding derivative instruments held by the Company and risk management strategies.

***Inventories***

Inventories are carried at the lower of cost or market. Cost is determined using the weighted average cost method.

***Content Rights***

Costs incurred in the direct production, co-production or licensing of content rights are capitalized and stated at the lower of unamortized cost, fair value, or net realizable value. The Company evaluates the net realizable value of content by considering the fair value of the underlying produced and co-produced content and the net realizable values of the licensed content quarterly.

The costs of produced and co-produced content airing on the Company's networks are capitalized and amortized based on the expected realization of revenues, resulting in an accelerated basis over four years for developed networks (Discovery Channel, TLC and Animal Planet) in the United States, and a straight-line basis over no longer than five years for developing networks (all other networks in the United States) and all networks in the International division. The cost of licensed content is capitalized and amortized over the term of the license period based on the expected realization of revenues, resulting in an accelerated basis for developed networks in the United States, and a straight-line basis for all International networks, developing networks in the United States and educational ventures. The costs of content for electronic, video and hardcopy educational supplements are amortized on a straight-line basis over a three to five year period.

All produced and co-produced content is classified as long-term. The portion of the unamortized licensed content balance that will be amortized within one year is classified as a current asset. The Company's co-production arrangements generally represent the sharing of production cost. The Company records its share of costs gross and records no amounts for the portion of costs borne by the other party as the Company does not share any associated economics of exploitation.

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Depreciation is recognized on a straight-line basis over the estimated useful lives of three to seven years for equipment, furniture and fixtures, five to forty years for building structure and construction, and six to twelve years for satellite transponders. Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful lives or the terms of the related leases, beginning on the date the asset is put into use. Equipment under capital lease represents the present value of the minimum lease payments at the inception of the lease, net of accumulated depreciation.

***Capitalized Software Costs***

All capitalized software costs are for internal use. Capitalization of costs occurs during the application development stage. Costs incurred during the pre and post implementation stages are expensed as incurred. Capitalized costs are amortized on a straight-line basis over their estimated useful lives of one to five years. Unamortized capitalized costs totaled $57.1 million and $61.4 million at December 31, 2007 and 2006 respectively. Software costs of $8.7 million, $7.2 million, $21.6 million and $23.2 million were capitalized from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Amortization of capitalized software costs totaled $12.7 million, $7.3 million, $18.3 million, and $19.3 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. There were no write-offs for capitalized software costs during 2007, 2006 and 2005.

***Recoverability of Long-Lived Assets, Goodwill, and Intangible Assets***

The Company annually assesses the carrying value of its acquired intangible assets, including goodwill, and its other long-lived assets, including deferred launch incentives, to determine whether impairment may exist, unless indicators of impairment become evident requiring immediate assessment. Goodwill impairment is identified by comparing the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill within the reporting unit is less than its carrying value. Intangible assets and other long-lived assets are grouped for purposes of evaluating recoverability at the lowest level for which independent cash flows are identifiable. If the carrying amount of an intangible asset, long-lived asset, or asset grouping exceeds its fair value, an impairment loss is recognized. Fair values for reporting units, goodwill and other asset groups are determined based on discounted cash flows, market multiples, or comparable assets as appropriate. During the Predecessor period, DCI recorded an asset impairment of $26.2 million for education assets related to its consumer business. During the Successor period, the Company recorded a $28.3 million write-off of leasehold improvements related to store closures which is included in loss from discontinued operations.

The determination of recoverability of goodwill and other intangibles and long-lived assets requires significant judgment and estimates regarding future cash flows, fair values, and the appropriate grouping of assets. Such estimates are subject to change and could result in impairment losses being recognized in the future. If different reporting units, asset groupings, or different valuation methodologies had been used, the impairment test results could have differed.

***Deferred Launch Incentives***

Consideration issued to cable and satellite distributors in connection with the execution of long-term network distribution agreements is deferred and amortized on a straight-line basis as a reduction to revenue over the terms of the agreements. Obligations for fixed launch incentives are recorded at the inception of the agreement. Following the renewal of a distribution agreement, the remaining deferred consideration is amortized over the extended period. Amortization of deferred launch incentives and interest on unpaid deferred launch incentives was $61.4 million, $39.0 million, $79.1 million and $74.1 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. During 2007, in connection with the settlement of terms under a pre-existing distribution agreement, Discovery completed negotiations for the renewal of long-term distribution agreements for certain of its U.K. networks and paid a distributor $195.8 million, most of which is being amortized over a 5 year period.

***Foreign Currency Translation***

The Company's foreign subsidiaries' assets and liabilities are translated at exchange rates in effect at the balance sheet date, while results of operations are translated at average exchange rates for the respective periods. The resulting translation adjustments are included as a separate component of members' equity/stockholders' deficit in accumulated other comprehensive income (loss). Intercompany accounts of a trading nature are revalued at exchange rates in effect at each month end and are included as part of operating income in the consolidated Statements of Operations.

***Long-term Incentive Plans***

Prior to August 2005, DCI maintained two unit-based, cash settled, long-term incentive plans. Under these plans, unit awards, which vest over a period of years, were granted to eligible employees and increased or decreased in value based on a specified formula of DCI's business metrics. DCI accounted for these units similar to stock appreciation rights and applied the guidance in FASB Interpretation Number 28, "Accounting for Stock Issued to Employees" ("FIN 28"). Accordingly, DCI adjusted compensation expense for changes in the accrued value of these awards over the period outstanding.

In August 2005, DCI discontinued one of its long-term incentive plans and settled all amounts with cash payments. In October 2005, DCI established a new long-term incentive plan for certain eligible employees. Substantially all participants in the remaining plan redeemed their vested units for cash payment and received units in the new plan.

Under the new plan, eligible employees receive cash settled unit awards indexed to the price of Class A DHC stock. As the units are indexed to the equity of another entity, the Company treats the units similar to a derivative, by determining their fair value each reporting period. The Company attributes compensation expense for the new awards on a straight-line basis; the Company attributes compensation expense for the initial grant of partially vested units by continuing to apply the FIN 28 model that was utilized over the awards' original vesting periods. Once units are fully vested, the Company recognizes all mark-to-market adjustments to fair value in each period as compensation expense. In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the classification of compensation expense associated with share-based payment awards. By applying the provisions of SAB 107, all long term incentive compensation expense is recorded as a component of selling, general and administrative expenses.

The Company classifies as a current liability the lesser of 100% of the intrinsic value of the units that are vested or will become vested within one year or the Black-Scholes value of units that have been attributed. Upon voluntary termination of employment, the Company distributes 100% of unit benefits if employees agree to certain provisions. Prior to a plan amendment in August 2007, the Company classified as a current liability 75% of the intrinsic value of vested units or units vesting within one year, as this amount corresponded to the value potentially payable should all participants separate from the Company. Upon voluntary termination of employment, the Company distributed 75% of unit benefits. The remainder was paid at the one-year anniversary of termination date. The August 2007 plan amendment eliminated the deferral of the final 25%. As such, employees are paid 100% of their vested amount upon separation from the Company.

***Mandatorily Redeemable Interest in Subsidiaries***

For those instruments with an estimated redemption value, mandatorily redeemable interest in subsidiaries is accreted or decreted to an estimated redemption value ratably over the period to the redemption date. Accretion and decretion are recorded as a component of minority interest expense. For instruments with a specified rate of return, DCI records interest expense as incurred. Cash receipts and payments for the sale or purchase of mandatorily redeemable interests in subsidiaries are included as a component of investing cash flows.

***Minority Interest***

In addition to the accretion and decretion on redeemable minority interests, the Company records minority interest expense for the portion of the earnings of consolidated entities which are applicable to the minority interest partners.

***Treasury Stock***

Treasury stock is accounted for using the cost method by DCI, the Predecessor. The repurchased shares are held in treasury and are presented as if retired. There was no treasury stock activity from January 1, 2007 through May 14, 2007 or for the year ended December 31, 2006. Discovery, the Successor, purchased and retired the membership equity of Cox. (See Note 1 Basis of Presentation and Description of Business.)

***Discontinued Operations***

In determining whether a group of assets disposed of should be presented as a discontinued operation, the Company makes a determination as to whether the group of assets being disposed of comprises a component of the entity, which requires cash flows that can be clearly distinguished from the rest of the entity. The Company also determines whether the cash flows associated with the group of assets have been or will be significantly eliminated from the ongoing operations of the Company as a result of the disposal transaction and whether the Company has no significant continuing involvement in the operations of the group of assets after the disposal transaction. If these determinations can be made affirmatively, the results of operations of the group of assets being disposed of (as well as any gain or loss on the disposal transaction) are aggregated for separate presentation apart from continuing operating results of the Company in the consolidated financial statements. The Company has elected not to segregate the cash flows from discontinued operations in its presentation of the Statements of Cash Flows.

***Income Taxes***

Income taxes are recorded using the asset and liability method of accounting for income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not such assets will be unrealized.

Effective January 1, 2007, DCI adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In instances where the Company has taken or expects to take a tax position in its tax return and the Company believes it is more likely than not that such tax position will be upheld by the relevant taxing authority upon settlement, the Company may record the benefits of such tax position in its consolidated financial statements. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Upon adoption of FIN 48, DCI recorded a $5.0 million net tax liability recorded directly to accumulated deficit.

### 3. Supplemental Disclosures to Consolidated Statements of Cash Flows

| | Successor | Predecessor | | |
|---|---|---|---|---|
| | May 15 through December 31, 2007 | January 1 through May 14, 2007 | 2006 | 2005 |
| | in thousands | | | |
| Cash paid for acquisitions: | | | | |
| Fair value of assets acquired | $ 419,154 | $ — | $223,293 | $ 400 |
| Fair value of liabilities Assumed | (113,060) | — | (28,388) | — |
| Cash paid for acquisitions, net of cash acquired | $ 306,094 | $ — | $194,905 | $ 400 |
| Cash paid for interest | $ 179,669 | $ 77,849 | $196,195 | $171,151 |
| Cash paid for income taxes | $ 58,323 | $ 16,554 | $ 70,215 | $ 27,678 |

### 4. Business Combinations

On December 17, 2007, Discovery completed its acquisition of HowStuffWorks.com ("HSW"), an on-line source of explanations of how the world actually works. This acquisition provides an additional platform for Discovery's library of video content and positions its brands as a hub for satisfying curiosity on both television and on-line. The results of operations have been included in the consolidated financial statements since December 17, 2007. The aggregate purchase price was $264.9 million, including $14.9 million of transaction costs. The Company also assumed net working capital of $1.1 million, content of $9.0 million, and deferred tax liabilities of $44.6 million. As of December 31, 2007, $4.6 million of the purchase price has not yet been paid. Of the $269.6 million of acquired intangibles, $95.8 million was ascribed to intangibles subject to amortization with useful lives between two and five years and the balance of $173.8 million to non-tax deductible goodwill. Acquired intangibles include trademarks, customer lists, and other items with weighted average useful lives of 4 years. The Company funded the purchase through additional borrowings under its credit facilities. HSW's content is highly ranked by the world's leading search engines and provides a natural link to the Company's video library. The purchase provides the Company with an expanded platform for content, additional ad sales outlet, and brand enhancement.

As part of the transaction, Discovery acquired approximately 49.5% of HSW International, Inc. ("HSWi") outstanding shares, resulting in an investment balance of $79.4 million. Discovery has gained voting rights which are capped at 45% of the outstanding votes, three non-controlling board seats and certain other governance rights. As a result of its noncontrolling interest, the Company has recorded its investment in HSWi under the equity method. Discovery will hold approximately 77% of these shares over a period of at least 12-24 months. Per terms of the agreement, the Company may distribute the HSWi stock or sell and distribute substantially all of the proceeds to former HSW shareholders. The Company initially recorded a liability of $53.7 million at closing, which represents its estimated obligation to the HSW shareholders. The Company has estimated the fair value of its investment and associated liability with information from an investment bank. The Company will adjust the liability each period to fair value through adjustments to earnings. The valuation considers forecasted operating results and market valuation factors. The estimated liability at December 31, 2007 is unchanged from December 17, 2007. HSWi has a perpetual royalty free license to exploit HSW content in certain foreign markets.

On July 31, 2007, the Company acquired Treehugger.com, an eco-lifestyle website for $10.0 million. As of December 31, 2007, $1.8 million of this purchase price has not yet been paid. The results of operations have been included in the consolidated financial statements since that date. The acquisition furthers the Company's goal of developing original programming related to the environment, sustainable development, conservation and organic living. The Company also has certain contingent considerations in connection with this acquisition payable in the event specific business metrics are achieved totaling up to $6.0 million over 2 years, which could result in the recording of additional goodwill.

**DISCOVERY COMMUNICATIONS HOLDING, LLC**

**Notes to Consolidated Financial Statements**

Subsequent to the formation of Discovery, the Company acquired an additional 5% interest in Animal Planet L.P. (“APLP”) from Cox for $37.0 million. This transaction increased the Company’s ownership interest in APLP from 80% to 85% and has been recorded as a step acquisition. The $37.0 million has been recorded as brand intangibles of $7.0 million, affiliate relationships of $10.0 million, and goodwill of $17.0 million. The brand intangibles and affiliate relationships will be amortized over 10 years.

The following table summarizes the combined estimated fair values of the assets acquired and the liabilities assumed at the dates of acquisition in 2007 for HSW, Animal Planet additional 5% interest and Treehugger.com. The HSW fair value allocation of assets and liabilities is preliminary because the acquisition closed December 17, 2007 and the fair value determination of assets and liabilities are subject to finalization.

| Asset (Liability) | HSW, Animal Planet and Treehugger, Combined in thousands |
|---|---|
| Current assets and content | $ 22,399 |
| Investment in HSWi stock | 79,375 |
| Other tangible assets | 1,313 |
| Finite-lived intangibles (including brand names, customer lists and trademarks) | 119,421 |
| Goodwill | 196,646 |
| Liabilities assumed | (14,753) |
| Deferred taxes | (44,585) |
| Estimated redemption liability to HSW shareholders | (53,722) |
| Cash paid, net of cash acquired | $ 306,094 |

During February 2006, DCI acquired 98% of DMAX (formerly known as XXP), a free-to-air network in Germany. The results of operations have been included in the consolidated financial statements since that date. The acquisition of a free-to-air network is intended to support strengthening global presence. The aggregate purchase price was $60.2 million primarily in cash. Of the $54.3 million of acquired intangible assets, $23.0 million was assigned to contract-based distribution channels subject to amortization with a useful life of approximately 5 years and the remaining balance of $31.3 million to goodwill. During 2007, Discovery acquired the remaining 2% in conjunction with the return of purchase escrow balances, for a net cash return amount of $8.1 million.

In March 2006, DCI acquired all of the outstanding common shares of Antenna Audio Limited (“Antenna”), a provider of audio tours and multimedia at museums and cultural attractions around the globe. The results of Antenna’s operations have been included in the consolidated financial statements since that date. DCI acquired Antenna to facilitate the expansion of its Travel brand and media content to other platforms. The aggregate purchase price was $64.4 million, primarily in cash. Of the $49.1 million of acquired intangibles, $6.4 million was assigned to assets subject to amortization with useful lives between two and seven years and the balance of $42.7 million to goodwill. Antenna and the Travel Channel had been integrated within a single reporting.

In 2006, DCI also acquired the following four entities for a total cost of $70.4 million, which was paid primarily in cash:

• Petfinder.com, a facilitator of pet adoptions and PetsIncredible, a producer and distributor of pet-training videos. During 2007, the former owners earned payment of certain contingent consideration in connection with this acquisition, resulting in the addition of $11.0 million in goodwill.

• Clearvue and SVE, Inc., a provider of curriculum-oriented media educational products.

• Academy123, Inc., a provider of on-line supplemental, educational content focusing largely on mathematics and sciences. In May 2007, Discovery recorded an asset impairment of $20.6 million, including $11.5 million of goodwill, for goodwill and intangible assets established during 2006 related to Academy 123, Inc. The business had not been integrated into the education reporting unit, and management decided to scale back its education business to consumers.

• Thinklink, Inc., a provider of formative assessment testing services to schools servicing students in grades K through 12.

Goodwill recognized for these transactions amounted to $27.9 million in 2006. Purchased identifiable intangible assets for these acquisitions are being amortized on a straight-line basis over lives ranging from one to ten years (weighted-average life of 4.4 years).

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the dates of acquisition in 2006.

| Asset (Liability) | DMAX, Antenna and Other Acquisitions, Combined |
|---|---|
| | in thousands |
| Current assets and content | $ 40,365 |
| Other tangible assets | 7,765 |
| Finite-lived intangible assets | 73,378 |
| Goodwill | 101,785 |
| Liabilities assumed | (28,388) |
| Cash paid, net of cash acquired | $ 194,905 |

## 5. Discontinued Operations

Following a comprehensive strategic review of its businesses, the Company decided to close its 103 mall based and stand alone Discovery Stores (Retail) in the third quarter of 2007. The Company will continue to leverage its products through retail arrangements and its e-commerce platform. As there is no continuing involvement in the retail stores or significant migration of retail customers to e-commerce, the results of the Retail business are accounted for as discontinued operations in the consolidated financial statements for the periods presented herein, in accordance with Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment and Disposal of Long-lived Assets” (“FAS 144”).

The following amounts related to Retail have been segregated from continuing operations and included in loss from discontinued operations in the consolidated statements of income:

| | Successor | Predecessor | | |
|---|---|---|---|---|
| | May 15 through December 31, 2007 | January 1 through May 14, 2007 | 2006 | 2005 |
| | | in thousands | | |
| Revenue | $ 30,491 | $ 27,362 | $129,317 | $127,396 |
| Loss from discontinued operations before income taxes | $ (81,115) | $ (18,312) | $ (35,911) | $ (31,652) |
| Loss from discontinued operations, net of tax | $ (52,490) | $ (12,533) | $ (22,318) | $ (20,568) |

No interest expense was allocated to discontinued operations for the periods presented herein since there was no debt specifically attributable to discontinued operations or required to be repaid following the closure of the retail stores. For the Successor period, the loss from discontinued operations includes $31.1 million in lease terminations and other exit costs, $8.8 million for severance and other employee-related costs and $28.3 million in asset impairment charges, along with normal business operations.

Summarized balance sheet information for discontinued operations for Retail is as follows:

| | December 31, | |
|---|---|---|
| | Successor 2007 | Predecessor 2006 |
| | in thousands | |
| Current assets | $ — | $ 38,106 |
| Total assets | $ — | $ 67,707 |
| Current liabilities | $ (6,349) | $ (29,961) |
| Total liabilities | $ (6,349) | $ (39,339) |

## 6. Content Rights

| Content Rights | December 31, | |
|---|---|---|
| | Successor 2007 | Predecessor 2006 |
| | in thousands | |
| Produced content rights | | |
| Completed | $ 1,346,985 | $ 1,476,830 |
| In process | 195,025 | 161,942 |
| Co-produced content rights | | |
| Completed | 499,127 | 681,105 |
| In process | 53,984 | 86,359 |
| Licensed content rights | | |
| Acquired | 209,082 | 213,691 |
| Prepaid | 21,690 | 10,386 |
| Content rights, at cost | 2,325,893 | 2,630,313 |
| Accumulated amortization | (1,198,538) | (1,312,365) |
| Content rights, net | 1,127,355 | 1,317,948 |
| Current portion, licensed content rights | (79,162) | (64,395) |
| Non-current portion | $ 1,048,193 | $ 1,253,553 |

Amortization of content rights is recorded as a component of cost of revenue and was $558.0 million, $257.0 million, $696.0 million and $601.1 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Amortization of content rights includes incremental amortization for certain programs to net realizable value of $171.7 million, $1.9 million, $40.1 million and $16.6 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The $171.7 million of incremental amortization includes an impairment charge of $129.1 million at U.S. networks, where new programming leadership evaluated the networks' programming portfolio assets and identified certain programming which no longer fit the go forward strategy of the networks. The Company wrote off those assets no longer intended for use.

The Company estimates that approximately 96% of unamortized costs of content rights at December 31, 2007 will be amortized within the next three years. The Company expects to amortize $434.3 million of unamortized content rights, not including in-process, not released, and prepaid productions, during the next twelve months.

## 7. Property and Equipment

| Property and Equipment | December 31, Successor 2007 | Predecessor 2006 |
|---|---|---|
| | in thousands | |
| Equipment and software | $ 478,616 | $ 411,583 |
| Land | 28,781 | 28,781 |
| Buildings | 154,227 | 153,737 |
| Furniture, fixtures, leasehold improvements and other | 151,417 | 217,884 |
| Assets in progress | 14,471 | 11,833 |
| Property and equipment, at cost | 827,512 | 823,818 |
| Accumulated depreciation and amortization | (430,082) | (399,777) |
| Property and equipment, net | $ 397,430 | $ 424,041 |

The cost and accumulated depreciation of equipment under capital leases was $53.3 million and $19.8 million, respectively, at December 31, 2007, and $39.7 million and $13.2 million, respectively, at December 31, 2006 respectively. Depreciation and amortization of property and equipment, including equipment under capital lease, was $57.3 million, $40.4 million, $78.4 million and $74.5 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Depreciation and amortization of property and equipment for Retail discontinued operations was $0.1 million, $3.2 million, $10.2 million and $10.4 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively, exclusive of impairment write-downs.

## 8. Sale of Equity Investments

In April 2006 and January 2005, DCI recorded gains of $1.5 million and $12.8 million, respectively, as a component of other non-operating expenses for the sale of certain investments accounted for under the cost method. The gains represent the difference between the proceeds received and the net book value of the investments.

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## 9. Goodwill and Intangible Assets

| Goodwill and Intangible Assets | December 31, Successor 2007 | December 31, Predecessor 2006 |
|---|---|---|
| | in thousands | |
| Goodwill | $4,870,187 | $ 365,266 |
| Trademarks, net of accumulated amortization of $2,272 and $1,905 | $ 62,193 | $ 12,322 |
| Customer lists, net of accumulated amortization of $76,919 and $136,049 | 67,282 | 26,500 |
| Other, net of accumulated amortization of $77,026 and $55,355 | 52,181 | 68,851 |
| Intangibles, net | $ 181,656 | $ 107,673 |

During 2007, changes in the net carrying amount of goodwill were as follows:

| Reconciliation of net carrying amount of goodwill | in thousands |
|---|---|
| Balance at January 1, 2007 (Predecessor) | $ 365,266 |
| Impairment (Predecessor) (Note 4) | (11,478) |
| Translation (Predecessor) | 2,047 |
| Push down of investor basis (Successor) (Note 1) | 4,591,581 |
| Disposals (Successor) (Note 1) | (280,838) |
| Acquisitions (Successor) (Note 4) | 198,109 |
| Translation (Successor) | 5,500 |
| Balance at December 31, 2007 (Successor) | $4,870,187 |

In April 2007, DCI completed a strategic analysis of the Education business and does not expect to generate revenue from the assets acquired from the Academy 123, Inc. acquisition. Goodwill of $11.5 million and intangible assets of $9.1 million were written-off as a component of amortization expense.

Goodwill is not amortized. Trademarks are amortized on a straight-line basis over 3 to 10 years. Customer lists are amortized on a straight-line basis over the estimated useful lives of three to seven years. Non-compete assets are amortized on a straight-line basis over the contractual term of one to seven years. Other intangibles are amortized on a straight-line basis over the estimated useful lives of three to ten years. The weighted-average amortization period for intangible assets is 5.1 years.

Amortization of intangible assets, totaled $22.3 million, $36.7 million, $43.6 million and $38.2 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The Company estimates that unamortized costs of intangible assets at December 31, 2007 will be amortized over the next five years as follows: $52.5 million in 2008, $40.9 million in 2009, $37.2 million in 2010, $20.4 million in 2011, and $12.2 million in 2012.

## 10. Investments

The following table outlines the Company's less than wholly-owned ventures and the method of accounting during 2007:

| Affiliates: | Accounting Method |
|---|---|
| ***Joint Ventures with the BBC:*** | |
| JV Programs LLC ("JVP") | Consolidated |
| Joint Venture Network LLC ("JVN") | Consolidated |
| Animal Planet Europe | Consolidated |
| Animal Planet Latin America | Consolidated |
| People & Arts Latin America | Consolidated |
| Animal Planet Asia | Consolidated |
| Animal Planet Japan | Consolidated |
| Animal Planet Canada | Equity |
| ***Other Ventures:*** | |
| Animal Planet United States (see Note 12) | Consolidated |
| Discovery Canada | Equity |
| Discovery Japan | Equity |
| Discovery Health Canada | Equity |
| Discovery Kids Canada | Equity |
| Discovery Civilization Canada | Equity |
| HSWi (See Note 4) | Equity |

***Joint Ventures with the BBC***

The Company and the BBC have formed several cable and satellite television network joint ventures, JVP, a venture to produce and acquire factual-based content, and JVN, a venture to provide debt funding to these joint ventures.

In addition to its own funding requirements, the Company has assumed the BBC funding requirements, giving the Company preferential cash distribution with these ventures. The Company controls substantially all of the BBC ventures and consolidates them accordingly. As the BBC does not have risk of loss, no BBC cumulative losses were allocated to minority interest for consolidated joint ventures with the BBC, and the Company recognizes both its and the BBC's share of cumulative losses in the equity method venture with the BBC. After December 31, 2006, JVP obtained a level of cumulative profitability. Minority interest expense of $4.3 million and $1.1 million for the BBC's share of earnings in JVP was recognized from May 15, 2007 through December 31, 2007 and from January 1, 2007 through May 14, 2007, respectively.

***Other Ventures***

The Company is a partner in international joint venture cable and satellite television networks. The Company also acquired an equity interest in HSWi stock as a result of its acquisition of HSW. DCI provided no funding to the equity ventures in 2007, 2006 or 2005. At December 31, 2007, the Company's maximum exposure to loss as a result of its involvement with the equity joint ventures is the $47.0 million investment book value and future operating losses, should they occur, of the equity joint ventures that the Company is obligated to fund.

## 11. Debt

| Debt | December 31, Successor 2007 | Predecessor 2006 |
|---|---|---|
| | in thousands | |
| $1,000,000.0 Term Loan A due quarterly December 2008 to October 2010 | $1,000,000 | $1,000,000 |
| $1,555,000.0 Revolving Loan, due October 2010 | 337,500 | 249,500 |
| €260,000.0 Revolving Loan, due April 2009 | 94,174 | 187,828 |
| $1,500,000.0 Term Loan B due quarterly September 2007 to May 2014 | 1,492,500 | — |
| 8.06% Senior Notes, semi-annual interest, due March 2008 | 180,000 | 180,000 |
| 7.45% Senior Notes, semi-annual interest, due September 2009 | 55,000 | 55,000 |
| 8.37% Senior Notes, semi-annual interest, due March 2011 | 220,000 | 220,000 |
| 8.13% Senior Notes, semi-annual interest, due September 2012 | 235,000 | 235,000 |
| Floating Rate Senior Notes, semi-annual interest, due December 2012 | 90,000 | 90,000 |
| 6.01% Senior Notes, semi-annual interest, due December 2015 | 390,000 | 390,000 |
| £10,000.0 Uncommitted Facility, due August 2008 | 8,785 | — |
| Obligations under capital leases | 37,172 | 32,355 |
| Other notes payable | 960 | 1,100 |
| Subtotal | 4,141,091 | 2,640,783 |
| Current portion | (32,006) | (7,546) |
| Total long-term debt | $4,109,085 | $2,633,237 |

In May 2007, Discovery entered into a $1,500.0 million, seven year term loan credit agreement. Borrowings under this agreement bear interest at London Interbank Offered Rate (“LIBOR”) plus an applicable margin of 2.0% or the higher of (a) the Federal Funds Rate plus 1/2 of 1% or (b) ”prime rate” set by Bank of America plus an applicable margin of 1.0%. The company capitalized $4.7 million of deferred financing costs as a result of this transaction. At the end of 2007 there was $1,492.5 million outstanding under the term loan agreement (net of mandatory principal repayments) with a weighted average interest rate of 6.83%. The average interest rate under this credit agreement was 7.44% for the period May 15, 2007 through December 31, 2007.

In September 2007, the Company’s United Kingdom subsidiary, Discovery Communications Europe Limited (“DCEL”) executed a £10 million uncommitted facility to supplement working capital requirements. The facility is available through August 1, 2008 and is guaranteed by Discovery. At December 31, 2007 there was £4.4 million (approximately $8.8 million) outstanding under this facility.

In March 2006, DCEL entered into a €70.0 million three year multicurrency revolving credit agreement (“UK credit agreement”) which enables the Company to draw Euros and British Pounds. In April 2006, the UK credit agreement was amended and restated to provide for syndication and to increase the revolving commitments to €260.0 million. The Company guarantees DCEL’s obligations under the UK credit agreement. Borrowings under this agreement bear interest at LIBOR plus an applicable margin based on the Company’s leverage ratios. The cost of the UK credit agreement also includes a fee on the revolving commitments (ranging from 0.1% to 0.3%) based on the Company’s leverage ratio. DCEL capitalized £0.7 million (approximately $1.4 million) of deferred financing costs as a result of this transaction. At the end of 2007 there was £47.5 million (approximately U.S. $94.2 million) outstanding under the multicurrency credit agreement with a weighted average interest rate of 6.75%. At the end of 2006 there was £95.9 million (approximately $187.8 million) outstanding under the multicurrency credit agreement with a weighted average interest rate of 5.91%. The interest rate averaged 7.05% and 6.42% from May 15, 2007 through December 31, 2007 and from January 1, 2007 through May 14, 2007, respectively. The UK credit agreement matures April 2009.

In March 2006 DCI borrowed additional funds under its US Credit Facility (Revolving Loan and Term A) to redeem the maturing $300.0 million Senior Notes. At the end of 2007 there was $1,337.5 million outstanding ($1,000 million Term A and $337.5 million Revolving Loan) under the facility with a weighted average interest rate of 5.61%. The amount available under the facility was $1,214.9 million, net of amounts committed for standby letters of credit of $2.6 million issued. At the end of 2006 there was $1,249.5 million outstanding under the facility with a weighted average interest rate of 6.35%. The amount available under the facility was $1,302.8 million, net of amounts committed for standby letters of credit of $2.7 million issued. The average interest rate under the U.S. Credit Facility was 6.11%, 6.22% and 6.01% from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007 and 2006, respectively. The Company’s debt agreements have certain restrictions on the payment of dividends from subsidiaries.

The Company uses derivative instruments to modify its exposure to interest rate fluctuations on its debt. The Term Loans, Revolving Facility, and Senior Notes contain covenants that require the Company to meet certain financial ratios and place restrictions on the payment of dividends, sale of assets, borrowing level, mergers, and purchases of capital stock, assets, and investments.

Future principal payments under the current debt arrangements, excluding obligations under capital leases and other notes payable, are as follows: $266.3 million in 2008, $539.2 million in 2009, $915.0 million in 2010, $235.0 million in 2011, $340.0 million in 2012 and $1,807.5 million thereafter. Of the $266.3 million of principal payments due in 2008, $242.5 million is excluded from the current portion of long-term debt as of December 31, 2007 because the Company has the intent and ability to refinance its obligations on a long-term basis.

Future minimum payments under capital leases are as follows: $9.0 million in 2008 and 2009, $6.8 million in 2010, $6.2 million in 2011, $3.0 million in 2012 and $10.0 million thereafter.

## 12. Mandatorily Redeemable Interests in Subsidiaries

| Mandatorily Redeemable Interests in Subsidiaries | December 31, Successor 2007 | December 31, Predecessor 2006 |
|---|---|---|
| | in thousands | |
| Animal Planet LP | $ — | $ 48,950 |
| People & Arts Latin America and Animal Planet Channel Group | 48,721 | 45,875 |
| Mandatorily redeemable interests in subsidiaries | $ 48,721 | $ 94,825 |

### *Animal Planet LP*

As of December 31, 2006, one of the DCI’s stockholders held 44,000 senior preferred partnership units of Animal Planet LP (“APLP”) that had a redemption value of $44.0 million and carried a rate of return ranging from 8.75% to 13%. Payments were made quarterly and totaled $4.6 million during 2006. APLP’s senior preferred partnership units were called by DCI in January 2007 for $44.0 million, plus accrued interest of $0.5 million. At December 31, 2006, DCI recorded this security at the redemption value of $44.0 million plus accrued returns of $5.0 million. Preferred returns were recorded as a component of interest expense based on a constant rate of return of 10.75% through the full term and aggregated $4.7 million in 2006 and 2005. DCI reversed $5.0 million of accrued interest upon exercise of the call.

### *People & Arts Latin America and Animal Planet Channel Group*

The BBC has the right, upon a failure of the People & Arts Latin America or the Animal Planet Channel Group (comprised of Animal Planet Europe, Animal Planet Asia, and Animal Planet Latin America), the Channel Groups, to achieve certain financial performance benchmarks to put its interests back to the Company for a value determined by a specified formula every three years which commenced December 31, 2002. The Company accretes the mandatorily redeemable equity in a subsidiary to its estimated redemption value through the applicable redemption date. The redemption value estimate is based on a contractual formula considering the projected results of each network within the channel group.

Based on the Company's calculated performance benchmarks, the Company believes the BBC has the right to put their interests as of December 2005. The BBC has 90 days following the valuation of the Channel Groups by an independent appraiser to exercise their right. During 2006 DCI was notified that the BBC is evaluating whether to execute their rights under the agreement. As of December 31, 2007, the BBC and the Company are assigning a valuation firm to formally assess the performance benchmarks and the BBC's right to put. The Company has accreted to an estimated redemption value of $48.7 million as of December 31, 2007, based on certain estimates and legal interpretations. Changes in these assumptions could materially impact current estimates. Accretion to the redemption value has been recorded as a component of minority interest expense of $1.7 million, $1.1 million, $9.1 million and $34.6 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and 2005, respectively.

### 13. Commitments and Contingencies

| Future Minimum Payments | Year ending December 31, | | | |
|---|---|---|---|---|
| | Leases | Content | Other | Total |
| | in thousands | | | |
| 2008 | $ 80,691 | $269,175 | $106,187 | $ 456,053 |
| 2009 | 65,991 | 66,616 | 85,546 | 218,153 |
| 2010 | 56,518 | 41,287 | 71,246 | 169,051 |
| 2011 | 41,360 | 40,176 | 23,852 | 105,388 |
| 2012 | 35,417 | 40,667 | 4,148 | 80,232 |
| Thereafter | 133,741 | 41,469 | 400 | 175,610 |
| Total | $413,718 | $499,390 | $291,379 | $1,204,487 |

Expenses recorded in connection with operating leases, including rent expense, for continuing and discontinued operations were $91.2 million, $53.1 million, $142.5 million and $142.1 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Expenses recorded in connection with operating leases, including rent expense, for discontinued operations were $37.2 million, $8.8 million, $24.0 million and $25.4 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The Company receives contributions from certain landlords to fund leasehold improvements. Such contributions are recorded as deferred rent and amortized as reductions to lease expense over the lease term. Certain of the Company's leases provide for rental rates that increase or decrease over time. The Company recognizes operating lease minimum rentals on a straight-line basis over the lease term. The Company's deferred rent balance was $24.2 million at December 31, 2007 and $37.4 million at December 31, 2006. Approximately $7.0 million of Discovery's deferred rent balance was written off and included in discontinued operations following the closure of the retail stores.

Discovery has certain contingent considerations in connection with the acquisition of Treehugger.com payable in the event specific business metrics are achieved totaling up to $6.0 million over 2 years (see Note 4).

The Company is involved in litigation incidental to the conduct of its business. In addition, the Company is involved in negotiations with organizations holding the rights to music used in the Company's content. As global music rights societies evolve, the Company uses all information available to estimate appropriate obligations. During 2005, DCI analyzed its music rights reserves and recorded a net reduction to cost of revenue of approximately $11.0 million. The Company believes the reserves related to these music rights are adequate and does not expect the outcome of such litigation and negotiations to have a material adverse effect on the Company's results of operations, cash flows, or financial position.

### 14. Employee Savings Plans

The Company maintains employee savings plans, defined contribution savings plans and a supplemental deferred compensation plan for certain management employees, together the "Savings Plans." The Company contributions to the Savings Plans were $6.2 million, $5.5 million, $9.9 million and $8.2 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007 in 2006 and in 2005, respectively.

### 15. Long-term Incentive Plans

In October 2005, DCI established a new long-term incentive plan. At inception of the plan, eligible participants in one of DCI's previously established long-term incentive plans chose to either continue in that plan or to redeem their vested units at the December 31, 2004 valuation and receive partially vested units in the new plan. Substantially all participants in the previously

established plan redeemed their vested units and received partially vested units in the new plan. Certain eligible employees were granted new units in the new plan.

Units partially vested in the new plan have vesting similar to units in the previously established plan. New units awarded vest 25% per year. The units in the new plan are indexed to the market price of Class A DHC stock. On August 17, 2007, the Company amended the plan so that each year 25% of the units awarded will expire and the employees will receive a cash payment for the increase in value. Prior to the amendment, units were paid out every two years over an eight year period. The Company has authorized the issuance of up to 31.9 million units under this plan.

Prior to October 2005, DCI maintained two unit-based, long-term incentive plans with substantially similar terms. Units were awarded to eligible employees following their one-year anniversary of hire and vested 25% per year thereafter. Upon exercise, participants received the increase in value from the date of issuance. The value of the units was based on changes in DCI's value as estimated by an external investment-banking firm utilizing a specified formula of DCI business metrics. The valuation also included a business group specific discount rate and terminal value based on business risk. The intrinsic value for unit appreciation had been recorded as compensation expense over the period the units were outstanding. In August 2005, DCI discontinued one of these plans, which resulted in the full vesting and cash redemption of units at the December 31, 2004 valuation, including a 25% premium on appreciated value.

Upon voluntary termination of employment, the Company distributes the intrinsic value of the participant's vested units, if participants agree to comply with post-employment obligations for one year in order to receive remaining benefits. The Company's cash disbursements under the new plan aggregated $75.6 million, $7.8 million and $0.3 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007 and in 2006, respectively. There were no payments during 2005 related to the new plan. DCI's cash disbursements under the prior plans aggregated $325.8 million during 2005.

The fair value of the units issued under the new plan has been determined using the Black-Scholes option-pricing model. The expected volatility represents the calculated volatility of the DHC stock price over each of the various contractual terms. As a result of the limited trading history of the DHC stock, this amount for units paid out after two years is determined based on an analysis of DHC's industry peer group over the corresponding periods. The weighted average assumptions used in this option-pricing model were as follows:

| | Successor | Predecessor | | |
|---|---|---|---|---|
| **Weighted Average Assumptions** | **May 15 - December 31, 2007** | **January 1 - May 14, 2007** | **2006** | **2005** |
| Risk-free interest rate | 3.20% | 4.72% | 4.78% | 4.36% |
| Expected term (years) | 1.48 | 3.87 | 3.86 | 4.75 |
| Expected volatility | 27.93% | 23.78% | 27.06% | 30.36% |
| Dividend yield | 0% | 0% | 0% | 0% |

The weighted average grant date fair values of units granted was $29.65, $18.66, $16.51 and $15.81 from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The weighted average fair value of units outstanding was $11.68 and $6.71 as of December 31, 2007 and 2006, respectively. Compensation expense in connection with the new plan was $78.5 million, $62.9 million, $39.2 million and $29.1 million from May 15, 2007 through December 13, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Included in the 2005 expense is $12.8 million related to the exchange of the partially vested units which represents the difference between the fair value of the award and the intrinsic value of the award attributable to prior vesting. The accrued fair values of units outstanding under the new plan were $141.6 million and $84.5 million at December 31, 2007 and 2006.

The following table summarizes information about unit transactions (units in millions) for the new plan:

| | Successor | | Predecessor | | | | | |
|---|---|---|---|---|---|---|---|---|
| | May 15 - December 31, 2007 | | January 1 - May 14, 2007 | | 2006 | | 2005 | |
| | Units | Weighted Average Exercise Price | Units | Weighted Average Exercise Price | Units | Weighted Average Exercise Price | Units | Weighted Average Exercise Price |
| Outstanding at Beginning of period | 26.7 | $ 16.01 | 26.3 | $ 15.00 | 24.2 | $ 14.82 | — | $ — |
| Units exchanged | — | — | — | — | — | — | 7.8 | 12.77 |
| Units granted | 6.4 | 29.65 | 7.8 | 18.66 | 3.5 | 16.36 | 16.4 | 15.81 |
| Units exercised | (1.1) | 15.69 | (2.3) | 14.01 | (0.1) | 13.12 | — | — |
| Units redeemed/cancelled | (5.2) | 15.29 | (5.1) | 15.82 | (1.3) | 15.43 | — | — |
| Outstanding at end of period | 26.8 | 19.42 | 26.7 | 16.01 | 26.3 | 15.00 | 24.2 | 14.82 |
| Vested at Period-end | 6.6 | $ 13.97 | 6.5 | $ 13.84 | 8.5 | $ 13.78 | 1.6 | $ 11.22 |

The Company classified as a current liability the entire long term incentive plan liability of $141.6 million. At December 31, 2007, there was $137.3 million of unrecognized compensation cost related to unvested units, which the Company expects to recognize over a weighted average period of 2.4 years. The weighted average remaining years of contractual life for outstanding and vested unit awards was 1.48 and 0.75, respectively, for unit awards outstanding as of December 31, 2007. The aggregate intrinsic value of units outstanding at December 31, 2007 and 2006 is $228.0 million and $82.0 million respectively. The vested intrinsic value of outstanding units was $94.2 million and $36.7 million at December 31, 2007 and 2006, respectively.

## 16. Income Taxes

Domestic and foreign income (loss) before income taxes and discontinued operations is as follows:

| | Successor | Predecessor | | |
|---|---|---|---|---|
| **Income From Continuing Operations Before Taxes** | May 15 - December 31, 2007 | January 1 - May 14, 2007 | 2006 | 2005 |
| Domestic | $ 254,772 | $ 86,601 | $444,504 | $358,065 |
| Foreign | 7,733 | 15,374 | (24,629) | (4,450) |
| Income from continuing operations before taxes | $ 262,505 | $ 101,975 | $419,875 | $353,615 |

**DISCOVERY COMMUNICATIONS HOLDING, LLC**

**Notes to Consolidated Financial Statements**

Income tax expense from continuing operations for the years ended December 31, 2007, 2006 and 2005 is as follows:

| Income Tax Expense | Successor | Predecessor | | |
|---|---|---|---|---|
| | May 15 - December 31, 2007 | January 1 - May 14, 2007 | 2006 | 2005 |
| | in thousands | | | |
| Current | | | | |
| Federal | $ 52,346 | $ 20,526 | $ 4,591 | $ (1,479) |
| State | 7,079 | 5,064 | 5,695 | (3,205) |
| Foreign | 28,185 | 16,634 | 59,879 | 57,644 |
| Total current income tax provision | 87,610 | 42,224 | 70,165 | 52,960 |
| Deferred | | | | |
| Federal | (65,091) | 4,618 | 114,986 | 106,182 |
| State | 9,879 | 9,023 | 3,707 | 16,298 |
| Foreign | 1,989 | 3,395 | (3,637) | (3,851) |
| Total deferred income tax (benefit) expense | (53,223) | 17,036 | 115,056 | 118,629 |
| Change in valuation allowance | (9,084) | (7,097) | 5,160 | 1,838 |
| Total income tax expense | $ 25,303 | $ 52,163 | $190,381 | $173,427 |

Components of deferred tax assets and liabilities as of December 31, 2007 and 2006 are as follows:

| Deferred Income Tax Assets and Liabilities | December 31 | | | |
|---|---|---|---|---|
| | Successor 2007 | | Predecessor 2006 | |
| | Current | Non-current | Current | Non-current |
| | in thousands | | | |
| Assets | | | | |
| Loss carry-forwards | $ 21,851 | $ 21,145 | $ 19,855 | $ 27,712 |
| Compensation | 58,762 | 9,489 | 30,981 | 15,563 |
| Accrued expenses | 11,161 | 13,232 | 12,088 | 14,981 |
| Reserves and allowances | 8,613 | — | 10,938 | — |
| Tax credits | — | — | — | 8,574 |
| Derivative financial instruments | — | 6,992 | — | 3,141 |
| Investments | — | 13,337 | — | 10,445 |
| Depreciation | — | 16,169 | — | — |
| Intangibles | — | 68,293 | — | 104,078 |
| Uncertain tax positions | — | 28,089 | — | — |
| Other | 4,769 | 17,024 | 4,301 | 20,897 |
| | 105,156 | 193,770 | 78,163 | 205,391 |
| Valuation allowance | — | (10,250) | — | (26,552) |
| Total deferred income tax assets | 105,156 | 183,520 | 78,163 | 178,839 |
| Liabilities | | | | |
| Depreciation | — | — | — | (6,164) |
| Content rights and deferred launch incentives | — | (156,654) | — | (200,732) |
| Foreign currency translation | — | (5,744) | — | (12,936) |
| Unrealized gains on investments | — | (24,970) | — | (861) |
| Other | (1,433) | (6,771) | (2,007) | (4,435) |
| Total deferred income tax liabilities | (1,433) | (194,139) | (2,007) | (225,128) |
| Deferred income tax assets (liabilities), net | $103,723 | $ (10,619) | $ 76,156 | $ (46,289) |

Income tax benefit (expense) from continuing operations differs from the amounts computed by applying the U.S. Federal income tax rate of 35.0% as a result of the following:

| Reconciliation of Effective Tax Rate from Continuing Operations | Successor | Predecessor | | |
|---|---|---|---|---|
| | May 15 - December 31, 2007 | January 1 - May 14, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 |
| Federal statutory rate | 35.0% | 35.0% | 35.0% | 35.0% |
| Increase (decrease) in tax rate arising from: | | | | |
| State income taxes, net of Federal benefit | 2.4 | 1.9 | 1.5 | 3.2 |
| Foreign income taxes, net of Federal benefit | 7.5 | 12.8 | 7.7 | 9.7 |
| Non-taxable gain | (17.9) | — | — | — |
| Travel deferred tax liabilities | (20.4) | — | — | — |
| Change in US reserve | 3.3 | — | — | — |
| Non-deductible goodwill write-off | — | 3.9 | — | — |
| Domestic production deduction | (1.1) | (1.8) | — | — |
| Other | 0.8 | (0.6) | 1.1 | 1.1 |
| Effective income tax rate | 9.6% | 51.2% | 45.3% | 49.0% |

The disposal of the Travel Business resulted in a gain of $134.7 million for book purposes, but the transaction was not recognized for tax purposes under Internal Revenue Code Sections 355 and 368. The transaction also resulted in a reduction of the Company's deferred tax liabilities related to the Travel Channel of $54.0 million.

As of December 31, 2007, the Company has federal operating loss carry-forwards of $93.3 million that begin to expire in 2021 and state operating loss carry-forwards of $296.9 million in various state jurisdictions available to offset future taxable income that expire in various amounts through 2025. In 2007, the Company acquired federal operating loss carry-forwards of $89.6 million. The state operating loss carry-forwards are subject to a valuation allowance of $5.4 million. The change in the valuation allowance from prior year reflects the elimination of fully reserved state operating loss carry-forwards upon disposal of the Retail business.

Deferred tax assets are reduced by a valuation allowance relating to the state tax benefits attributable to net operating losses in certain jurisdictions where realizability is not more likely than not.

The Company's ability to utilize foreign tax credits is currently limited by its overall foreign loss under Section 904(f) of the Internal Revenue Code. The Company has no alternative minimum tax credits.

The Company files U.S. federal, state, and foreign income tax returns. With few exceptions, the Company is no longer subject to audit by the Internal Revenue Service ("IRS"), state tax authorities, or non-U.S. tax authorities for years prior to 2003.

It is reasonably possible that the total amount of unrecognized tax benefits related to tax positions taken (or expected to be taken) on 2005, 2006, and 2007 non-U.S. tax returns could decrease by as much as $32.8 million within the next twelve months as a result of settlement of audit issues and/or payment of uncertain tax liabilities, which could impact the effective tax rate.

The IRS is not currently examining the Company's consolidated federal income tax return. However, some of the Company's joint ventures are under examination for the 2004 tax year. The Company does not expect any significant adjustments.

As a result of the implementation of FIN 48, the Company recognized an increase of $36.3 million in its liability for unrecognized tax benefits, which was offset in part by a corresponding increase of $31.3 million in deferred tax assets. The remaining $5.0 million was accounted for as a reduction to the January 1, 2007 balance of retained earnings. A reconciliation of the beginning and ending amount of unrecognized tax benefits (without related interest amounts) is as follows:

| Reconciliation of Unrecognized Tax Benefits | |
|---|---|
| Balance at January 1, 2007 (Predecessor) | $ 91,375 |
| Reductions for tax positions of prior years (Predecessor) | (412) |
| Additions based on tax positions related to the current year (Successor) | 11,650 |
| Additions for tax positions of prior years (Successor) | 16,830 |
| Reductions for tax positions of prior years (Successor) | (28,674) |
| Settlements (Successor) | (2,035) |
| Balance at December 31, 2007 (Successor) | $ 88,734 |

Included in the balance at December 31, 2007, are $9.5 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

FIN 48 requires uncertain tax positions to be recognized and presented on a gross basis (i.e., without regard to likely offsets for deferred tax assets, deductions, and/or credits that would result from payment of uncertain tax amounts). On a net basis, the balance at December 31, 2007 is $45.2 million (including related interest amounts) after offsetting deferred tax assets, deductions, and/or credits on the Company's tax returns.

The Company's policy is to classify tax interest and penalties related to unrecognized tax benefits as tax expense. Interest expense related to unrecognized tax benefits recognized was approximately $2.1 million, $1.3 million, $0.8 million, and $0.9 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The Company had accrued approximately $6.4 million and $2.3 million of total interest payable in the tax accounts as of December 31, 2007, and 2006, respectively. Additional interest of $0.7 million was accrued upon adoption of FIN 48 in the first quarter of its fiscal year 2007, with a corresponding reduction to retained earnings.

## 17. Financial Instruments

The Company uses derivative financial instruments to modify its exposure to market risks from changes in interest rates and foreign exchange rates. The Company does not hold or enter into financial instruments for speculative trading purposes.

The Company's interest expense is exposed to movements in short-term interest rates. Derivative instruments, including both fixed to variable and variable to fixed interest rate instruments, are used to modify this exposure. These instruments include swaps and swaptions to modify interest rate exposure. The variable to fixed interest rate instruments have a notional principal amount of $2,270.0 million and $1,025.0 million and have a weighted average interest rate of 4.68% and 5.09% at December 31, 2007 and 2006, respectively. The fixed to variable interest rate agreements have a notional principal amount of $225.0 million and have a weighted average interest rate of 9.65% and 9.86% at December 31, 2007 and 2006, respectively. At December 31, 2007, the Company held an unexercised interest rate swap put with a notional amount of $25.0 million at a fixed rate of 5.44%. As a result of unrealized mark-to-market adjustments, ($10.0) million, $1.4 million, $10.4 million and $29.1 million in gains (losses) on these instruments were recorded from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively.

The fair value of these derivative instruments, which aggregate ($49.6) million and $8.5 million at December 31, 2007 and 2006, respectively, is recorded as a component of long-term liabilities and other current liabilities in the consolidated balance sheets. Changes in the fair value of these derivative instruments are recorded as a component of operating cash flows.

Of the total of $2,270.0 million, a notional amount of $1,460.0 million of these derivative instruments are 100% effective cash flow hedges. The value of these hedges at December 31, 2007 was ($32.5) million with changes in the mark-to-market value recorded as a component of other comprehensive income (loss), net of taxes. Should any portion of these instruments become ineffective due to a restructuring in the Company's debt, the monthly changes in fair value would be reported as a component of other income on the Statement of Operations. The Company does not expect any hedge ineffectiveness in the next twelve months.

The foreign exchange instruments used are spot, forward, and option contracts. Additionally, the Company enters into non-designated forward contracts to hedge non-dollar denominated cash flows and foreign currency balances. At December 31, 2007 and 2006, the notional amount of foreign exchange derivative contracts was $174.2 million and $364.1 million, respectively. As a result of unrealized mark-to-market adjustments, ($3.3) million, ($0.9) million, $2.0 million and ($2.3) million in gains (losses) were recognized on these instruments from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. The fair value of these derivative instruments is recorded as a component of long-term liabilities and other current liabilities in the consolidated balance sheets. These derivative instruments did not receive hedge accounting treatment.

***Fair Value of Financial Instruments***

The fair values of cash and cash equivalents, receivables, and accounts payable approximate their carrying values. Marketable equity securities are carried at fair value and fluctuations in fair value are recorded through other comprehensive income (loss). Losses on investments that are other than temporary declines in value are recorded in the statement of operations.

The carrying amount of the Company's borrowings was $4,141.1 million and the fair value was $4,186.7 million at December 31, 2007. The carrying amount of the Company's borrowings was $2,641.0 million and the fair value was $2,702.0 million at December 31, 2006.

The carrying amount of all derivative instruments represents their fair value. The net fair value of the Company's short and long-term derivative instruments is ($51.2) million at December 31, 2007; 4%, 11%, 61%, 23%, and 1% of these derivative instrument contracts will expire in 2008, 2009, 2010, 2011 and thereafter, respectively.

The fair value of derivative contracts was estimated by obtaining interest rate and volatility market data from brokers. As of December 31, 2007, an estimated 100 basis point parallel shift in the interest rate yield curve would change the fair value of the Company's portfolio by approximately $45.2 million.

***Credit Concentrations***

The Company continually monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its financial instruments and does not anticipate nonperformance by the counterparties. In addition, the Company limits the amount of investment credit exposure with any one institution.

The Company's trade receivables and investments do not represent a significant concentration of credit risk at December 31, 2007 due to the wide variety of customers and markets in which the Company operates and their dispersion across many geographic areas.

### 18. Related Party Transactions

The Company identifies related parties as investors in their consolidated subsidiaries, the Company's joint venture partners and equity investments, and the Company's executive management. Transactions with related parties typically result from distribution of networks, production of content, or media uplink services. Gross revenue earned from related parties was $21.3 million, $46.9 million, $90.0 million and $73.7 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively. Accounts receivable from these entities were $6.5 million and $15.0 million at December 31, 2007 and 2006, respectively. Purchases from related parties totaled $54.8 million, $31.8 million, $83.3 million and $71.4 million from May 15, 2007 through December 31, 2007, from January 1, 2007 through May 14, 2007, in 2006 and in 2005, respectively; of these purchases, $5.1 million, $3.0 million, $8.4 million and $23.1 million related to capitalized assets from January 1, 2007 through May 14, 2007, May 15, 2007 through December 31, 2007, in 2006 and in 2005 respectively. Amounts payable to these parties totaled $0.6 million and $2.4 million at December 31, 2007 and 2006, respectively.