

Discovery Holding CO  
Form DEF 14A  
April 21, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934

Filed by the Registrant:

Filed by a Party other than the Registrant:

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

Discovery Holding Company

(Name of Registrant as Specified in its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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

(2) Aggregate number of securities to which transaction applies:

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

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

(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

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**DISCOVERY HOLDING COMPANY**  
**12300 Liberty Boulevard**  
**Englewood, Colorado 80112**  
**(720) 875-4000**

April 28, 2006

Dear Shareholder:

The 2006 Annual Meeting of Shareholders of Discovery Holding Company will be held at 9:00 a.m., local time, on May 31, 2006, at the Denver Marriott South at Park Meadows, 10345 Park Meadows Drive, Littleton, Colorado 80124, Tel. No. (303) 925-0004. At the annual meeting, you will be asked to consider and vote on the following matters:

the **election of director proposal**, a proposal to elect J. David Wargo to serve as Class I member of our board of directors until the 2009 annual meeting of shareholders;

the **incentive plan approval proposal**, a proposal to approve the Discovery Holding Company 2005 Incentive Plan;

the **auditors ratification proposal**, a proposal to ratify the selection of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2006; and

any other business as may properly come before the annual meeting.

This document describes the annual meeting, the enumerated proposals and related matters. Our board has approved each of the enumerated proposals and recommends that you vote **FOR** each of them.

Whether or not you plan to attend the annual meeting, **please read the enclosed proxy statement and then complete, sign and date the enclosed proxy and return it as promptly as possible in the accompanying postage paid return envelope.** Alternatively, you may submit your proxy over the Internet or by telephone. This will save us additional expense in soliciting proxies and will ensure that your shares are represented at the meeting. It will not, however, prevent you from later revoking your proxy or changing your vote at the meeting, in each case as more fully described in the attached proxy statement.

Thank you for your continued support and interest in our company.

Very truly yours,

John C. Malone  
*Chief Executive Officer*

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**DISCOVERY HOLDING COMPANY  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
(720) 875-4000**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
To Be Held on May 31, 2006**

**NOTICE IS HEREBY GIVEN** that the 2006 Annual Meeting of Shareholders of Discovery Holding Company, a Delaware corporation, will be held at 9:00 a.m., local time, on May 31, 2006, at the Denver Marriott South at Park Meadows, 10345 Park Meadows Drive, Littleton, Colorado 80124, Tel. No. (303) 925-0004, for the following purposes:

1. To vote in the election of J. David Wargo to serve as Class I member of our board of directors until our 2009 annual meeting of shareholders (the **election of director proposal** );
2. To consider and vote upon a proposal to approve the implementation of the Discovery Holding Company 2005 Incentive Plan (the **incentive plan approval proposal** );
3. To consider and vote upon a proposal to ratify the selection of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2006 (the **auditors ratification proposal** ); and
4. To transact any other business as may properly come before the annual meeting.

Holders of record of Discovery Holding Company Series A common stock, par value \$.01 per share, and Discovery Holding Company Series B common stock, par value \$.01 per share, outstanding as of 5:00 p.m., New York City time, on April 21, 2006, the record date for the annual meeting, will be entitled to notice of the annual meeting and to vote at the annual meeting or any adjournment thereof. Holders of record of Series A common stock and Series B common stock on the record date will vote together as a single class on each proposal. A list of shareholders entitled to vote at the annual meeting will be available at our offices for review by our shareholders, for any purpose germane to the annual meeting, for at least 10 days prior to the annual meeting.

We describe the proposals in more detail in the accompanying proxy statement. We encourage you to read the proxy statement in its entirety before voting.

The board of directors has carefully considered and approved each of the proposals described above and recommends that you vote **FOR** each of them.

**YOUR VOTE IS IMPORTANT.** You may also execute and deliver a proxy by telephone, Internet or mail.

By order of the board of directors,

Charles Y. Tanabe  
*Senior Vice President, General Counsel and*

*Secretary*

Englewood, Colorado  
April 28, 2006

**Even if you intend to be present at the annual meeting please make sure your shares are voted by executing the enclosed proxy and returning it promptly.**

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ANNEX A DISCOVERY HOLDING COMPANY 2005 INCENTIVE PLAN

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ANNEX B AUDIT COMMITTEE CHARTER

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**DISCOVERY HOLDING COMPANY**  
a Delaware corporation

**12300 Liberty Boulevard**  
**Englewood, Colorado 80112**  
**(720) 875-4000**

**PROXY STATEMENT**

**For Annual Meeting of Shareholders**

We are furnishing this proxy statement in connection with the board of directors' solicitation of proxies for use at our 2006 Annual Meeting of Shareholders to be held at 9:00 a.m., local time, on May 31, 2006, at the Denver Marriott South at Park Meadows, 10345 Park Meadows Drive, Littleton, Colorado 80124, Tel. No. (303) 925-0004, or at any adjournment or postponement of the annual meeting. At the annual meeting, we will ask you to consider and approve the proposals described in the Notice of Annual Meeting of Shareholders. The proposals are described in more detail in this proxy statement. We are soliciting proxies from holders of our Series A common stock, par value \$.01 per share, and our Series B common stock, par value \$.01 per share.

The date of this proxy statement is April 28, 2006. We are first sending this proxy statement to shareholders on or about that date.

**VOTING; PROXIES**

**Voting**

***Who May Vote***

Holders of our Series A common stock and Series B common stock, as recorded in our stock register as of 5:00 p.m., New York City time, on April 21, 2006 (which is the record date for the annual meeting), may vote at the annual meeting. We expect there to be, as of the record date for the annual meeting, approximately 3,569 record holders of Series A common stock and approximately 163 record holders of Series B common stock. These amounts do not include the number of shareholders whose shares are held of record by banks, brokers or other nominees, but include each such institution as one holder.

As of February 28, 2006, an aggregate of 268,096,119 shares of our Series A common stock and 12,106,093 shares of our Series B common stock were outstanding and entitled to vote. No other shares of our capital stock are currently outstanding.

***Votes You Have***

At the annual meeting, holders of Series A common stock will have one vote per share for each share of Series A common stock that our records show they owned on the record date, and holders of Series B common stock

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will have ten votes per share for each share of Series B common stock that our records show they owned on the record date.

### ***How to Vote***

You may vote in person at the annual meeting. Alternatively, you may give a proxy by completing, signing, dating and returning the enclosed proxy card, or by executing and delivering a proxy by telephone or over the Internet. We recommend that you vote by proxy even if you plan to attend the annual meeting. You may change your vote at the annual meeting.

### ***Quorum***

In order to carry on the business of the annual meeting, we must have a quorum present. This means that at least a majority of the voting power represented by the shares of our common stock outstanding on the record date must be represented at the annual meeting, either in person or by proxy. For purposes of determining a quorum, we will include your shares as represented at the meeting even if you indicate on your proxy card that you abstain from voting. In addition, if a broker, bank or other nominee, who is a record holder of shares, indicates on a form of proxy that the broker does not have discretionary authority to vote those shares on any proposal (whether by reason of the beneficial owner's withholding of such authority or if those shares are voted in other circumstances in which proxy authority is defective or has been withheld with respect to any proposal), these shares (which we refer to as broker non-votes) will be treated as present for purposes of determining the presence of a quorum.

### ***Votes Needed***

***Election of Director Proposal.*** A plurality of the affirmative votes of the shares of our Series A common stock and Series B common stock outstanding on the record date, voting together as a single class, that are voted in person or by proxy at the annual meeting is required to elect Mr. Wargo as Class I member of our board of directors. This means that the nominee will be elected if he receives more affirmative votes than any other person.

If you submit a proxy card on which you indicate that you abstain from voting, it will have no effect on the election of director proposal.

Broker non-votes will have no effect on the election of director proposal.

***Incentive Plan Approval Proposal.*** Approval of the incentive plan proposal requires the affirmative vote of the holders of a majority of the aggregate voting power of the shares of our Series A common stock and Series B common stock entitled to vote that are present, in person or by proxy, at the annual meeting, voting together as a single class.

If you submit a proxy card on which you indicate that you abstain from voting, it will have the same effect as a vote **AGAINST** the incentive plan approval proposal.

Broker non-votes will have no effect on the incentive plan approval proposal.

***Auditors Ratification Proposal.*** Approval of the auditors ratification proposal requires the affirmative vote of the holders of a majority of the aggregate voting power of the shares of our Series A common stock and Series B common stock entitled to vote that are present, in person or by proxy, at the annual meeting, voting together as a single class.

If you submit a proxy card on which you indicate that you abstain from voting, it will have the same effect as a vote **AGAINST** the auditors ratification proposal.

Broker non-votes will have no effect on the auditors ratification proposal.

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**Proxies**

***How Proxies Work***

**Record Holders.** A form of proxy for use at the annual meeting has been included with each copy of this proxy statement mailed to our record shareholders. Unless subsequently revoked, shares of common stock represented by a proxy submitted as described below and received at or before the annual meeting will be voted in accordance with the instructions on the proxy.

We recommend that you vote by proxy even if you plan to attend the meeting. You may change your vote at the meeting. To submit a written proxy by mail, you should complete, sign, date and mail the proxy card in accordance with the instructions on the card. If a proxy card is signed and returned without indicating any voting instructions, the shares of common stock represented by the proxy will be voted **FOR** each of the proposals. You may also submit a proxy over the Internet or by telephone by following the instructions set forth on the proxy card.

**Shares Held in Street Name.** If you hold your shares in the name of a broker, bank or other nominee, you should follow the instructions provided by your broker, bank or other nominee to give instructions regarding the voting of your shares.

Shares represented by broker non-votes will be deemed shares not entitled to vote and will not be included for purposes of determining the aggregate voting power and number of shares represented and entitled to vote on a particular proposal. For information concerning the effects of broker non-votes, see **Voting Votes Needed** above.

***Solicitation***

In addition to this mailing, our employees may solicit proxies personally, electronically or by telephone. We pay the costs of soliciting these proxies. We also reimburse brokers and other nominees for their expenses in sending these materials to you and getting your voting instruction.

***Revoking a Proxy***

**Record Holders.** Before your proxy is voted, you may change your voting instructions by telephone or over the Internet (if you originally gave your proxy by telephone or over the Internet), by voting in person at the annual meeting or by delivering a signed proxy revocation or a new signed proxy with a later date to Discovery Holding Company, c/o Computershare Trust Company, N.A., P.O. Box 43101, Providence, Rhode Island 02940. Any signed proxy revocation or new signed proxy must be received before the start of the annual meeting.

Your attendance at the annual meeting will not, by itself, revoke your proxy.

**Shares Held in Street Name.** If your shares are held in an account by a broker, bank or other nominee, you should contact your broker, bank or other nominee to change your voting instructions.

***Other Matters to Be Voted on at the Annual Meeting***

The board of directors is not currently aware of any business to be acted on at the annual meeting other than as described in this proxy statement. **If, however, other matters are properly brought before the annual meeting, the persons you choose as proxies may have discretion to vote or to act on these matters according to their best**

**judgment, unless you indicate otherwise on your proxy.**

One of the other matters that could come before the annual meeting is a proposal to adjourn or postpone the meeting. If the purpose of the proposal to adjourn or postpone the annual meeting is the solicitation of additional proxies, the persons you choose as proxies will not have the discretion to vote for such a proposal; instead:

shares represented by proxies voting against the proposals will be voted **AGAINST** such proposal to adjourn or postpone the annual meeting;

shares represented by proxies voting for the proposals will be voted **FOR** such proposal to adjourn or postpone the annual meeting; and

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shares represented by proxies indicating the shareholder abstained from voting on the proposals may not be voted with respect to such proposal to adjourn or postpone the annual meeting.

However, if the purpose of the adjournment or postponement is not for the solicitation of additional proxies, the persons you choose as proxies will have discretion to vote on any adjournment or postponement of the annual meeting.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Security Ownership of Certain Beneficial Owners**

The following table sets forth information, to the extent known by us or ascertainable from public filings, concerning shares of our common stock beneficially owned by each person or entity (other than certain of our directors and executive officers, whose ownership information follows) known by us to own more than five percent of the outstanding shares of our common stock.

The percentage ownership information is based upon 268,096,119 shares of our Series A common stock and 12,106,093 shares of our Series B common stock outstanding as of February 28, 2006.

<b>Name of Beneficial Owner</b>	<b>Title of Class</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>	<b>Voting Power</b>
Southeastern Asset Management, Inc.	Series A	27,722,754(1)	10.3%	7.1%
Harris Associates L.P.	Series A	28,018,162(2)	10.5%	7.2%
Capital Research and Management Company	Series A	21,172,180(3)	7.9%	5.4%

(1) The number of shares of common stock is based upon Amendment No. 1 to the Schedule 13G dated February 10, 2006, filed by Southeastern Asset Management, Inc., an investment adviser, and O. Mason Hawkins, Chairman of the Board and CEO of Southeastern, with respect to our Series A common stock. All of the 27,722,754 shares of our Series A common stock covered by the Schedule 13G are owned by Southeastern's investment advisory clients and none are owned directly or indirectly by Southeastern. Mr. Hawkins could be deemed to be a controlling person of Southeastern but disclaims the existence of such control. Mr. Hawkins does not own directly or indirectly any securities covered by the Schedule 13G. Southeastern and Mr. Hawkins disclaim beneficial ownership of the shares covered by the Schedule 13G pursuant to Rule 13d-4. The Schedule 13G reflects that Southeastern has sole voting power over 10,066,310 shares of our Series A common stock and shared voting power over 16,257,344 shares of our Series A common stock.

(2) The number of shares of common stock is based upon information provided to us by Harris Associates L.P. According to Harris Associates, they are deemed to be the beneficial owner of 28,018,162 shares of our Series A common stock, as a result of acting as investment adviser

(3)

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The number of shares of common stock is based upon the Schedule 13G dated February 10, 2006, filed by Capital Research and Management Company with respect to our Series A common stock. Capital Research, an investment adviser, is deemed to be the beneficial owner of 21,172,180 shares of our Series A common stock, as a result of acting as investment adviser to various investment companies, but disclaims beneficial ownership pursuant to Rule 13d-4. The Schedule 13G reflects that Capital Research has sole voting power over 11,491,180 shares of our Series A common stock.

**Table of Contents****Security Ownership of Management**

The following table sets forth information with respect to the ownership by each of our directors and each of our named executive officers, and by all of our directors and executive officers as a group, of shares of our Series A and our Series B common stock.

The security ownership information is given as of February 28, 2006 and, in the case of percentage ownership information, is based upon 268,096,119 shares of our Series A common stock and 12,106,093 shares of our Series B common stock outstanding on such date.

Shares of common stock issuable upon exercise or conversion of options, warrants and convertible securities that were exercisable or convertible on or within 60 days after February 28, 2006, are deemed to be outstanding and to be beneficially owned by the person holding the options, warrants or convertible securities for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. For purposes of the following presentation, beneficial ownership of shares of our Series B common stock, though convertible on a one-for-one basis into shares of our Series A common stock, is reported as beneficial ownership of our Series B common stock only, and not as beneficial ownership of our Series A common stock, but the voting power of the Series A common stock and Series B common stock have been aggregated. So far as is known to us, the persons indicated below have sole voting power with respect to the shares indicated as owned by them, except as otherwise stated in the notes to the table.

<b>Name of Beneficial Owner</b>	<b>Title of Class</b>	<b>Amount and Nature of Beneficial Ownership (In thousands)</b>	<b>Percent of Class</b>	<b>Voting Power</b>
John C. Malone	Series A	3,621(1)(2)(3)(4)	1.4%	30.6%
	Series B	11,876(1)(4)	89.6%	
Robert R. Bennett	Series A	581(5)(6)(7)	*	4.3%
	Series B	1,668(6)(7)	12.1%	
Paul A. Gould	Series A	191(8)	*	*
	Series B	174	1.4%	
M. LaVoy Robison	Series A	3(9)	*	*
	Series B	0		
J. David Wargo	Series A	10(10)(11)	*	*
	Series B	0		
David J.A. Flowers	Series A	177(12)(13)(14)	*	*
	Series B	0		
Albert E. Rosenthaler	Series A	54(15)(16)	*	*
	Series B	0		
Christopher W. Shean	Series A	50(17)(18)	*	*
	Series B	0		
Charles Y. Tanabe	Series A	241(19)(20)(21)	*	*



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	Series B	0		
All directors and executive officers as a Group (9 persons)	Series A	4,929(3)(7)(11)(14)(22)(23)(24)	1.8%	34.0%
	Series B	13,721(7)(23)(24)	92.0%	

\* Less than one percent

- (1) Includes 314,317 shares of our Series A common stock and 340,943 shares of our Series B common stock held by Mr. Malone's wife, Mrs. Leslie Malone, as to which shares Mr. Malone has disclaimed beneficial ownership.
- (2) Includes 75,916 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (3) Includes 330 and 1,721,588 shares of our Series A common stock held by two trusts with respect to which Mr. Malone is the sole trustee and, with his wife, retains a unitrust interest in the trust.

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- (4) Includes beneficial ownership of 137 shares of our Series A common stock and 1,148,540 shares of our Series B common stock, which may be acquired within 60 days after February 28, 2006 pursuant to stock options. Mr. Malone has the right to convert the options to purchase shares of our Series B common stock into options to purchase shares of our Series A common stock.
- (5) Includes 2,962 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (6) Includes beneficial ownership of 202,564 shares of our Series A common stock and 1,667,985 shares of our Series B common stock, which may be acquired within 60 days after February 28, 2006 pursuant to stock options. Mr. Bennett has the right to convert the options to purchase shares of our Series B common stock into options to purchase shares of our Series A common stock.
- (7) Includes 124,659 shares of our Series A common stock and 40 shares of our Series B common stock owned by Hilltop Investments, Inc., which is jointly owned by Mr. Bennett and his wife, Mrs. Deborah Bennett.
- (8) Includes beneficial ownership of 3,075 shares of our Series A common stock, which may be acquired within 60 days after February 28, 2006 pursuant to stock options.
- (9) Includes beneficial ownership of 2,200 shares of our Series A common stock, which may be acquired within 60 days of February 28, 2006 pursuant to stock options.
- (10) Includes beneficial ownership of 1,048 shares of our Series A common stock, which may be acquired within 60 days after February 28, 2006 pursuant to stock options.
- (11) Includes 3,137 shares of our Series A common stock held in various accounts managed by Mr. Wargo, as to which shares Mr. Wargo has disclaimed beneficial ownership.
- (12) Includes 1,358 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (13) Includes beneficial ownership of 134,841 shares of our Series A common stock, which may be acquired within 60 days after February 28, 2006 pursuant to stock options.
- (14) Includes 2,700 shares of our Series A common stock owned by AIKD Investment, Inc., which is solely owned by Mr. Flowers.
- (15) Includes 648 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (16) Includes beneficial ownership of 53,460 shares of our Series A common stock, which may be acquired within 60 days after February 28, 2006 pursuant to stock options.
- (17) Includes 1,368 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (18) Includes beneficial ownership of 48,845 shares of our Series A common stock, which may be acquired within 60 days of February 28, 2006 pursuant to stock options.
- (19) Includes 306 shares of our Series A common stock held by Mr. Tanabe's wife, Arlene Bobrow, as to which shares Mr. Tanabe has disclaimed beneficial ownership.
- (20)

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Includes beneficial ownership of 211,415 shares of our Series A common stock, which may be acquired within 60 days of February 28, 2006 pursuant to stock options.

- (21) Includes 751 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (22) Includes 83,003 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (23) Includes 314,623 shares of our Series A common stock and 340,943 shares of our Series B common stock held by relatives of certain directors and executive officers, as to which shares beneficial ownership by such directors and executive officers has been disclaimed.
- (24) Includes beneficial ownership of 657,585 shares of our Series A common stock and 2,816,525 shares of our Series B common stock, which may be acquired within 60 days after February 28, 2006 pursuant to stock options. The options to purchase shares of our Series B common stock may be converted, at the option of the holder, into options to purchase shares of our Series A common stock.

### **Change of Control**

We know of no arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of our company.

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**PROPOSALS BY OUR BOARD**

The following proposals will be presented at the annual meeting by the board of directors.

**PROPOSAL 1 THE ELECTION OF DIRECTOR PROPOSAL**

**Board of Directors**

The board of directors currently consists of five directors, divided among three classes. Our Class I director, whose term will expire at the annual meeting, is J. David Wargo. Mr. Wargo is nominated for re-election to our board to continue to serve as Class I director, and we have been informed that he is willing to continue to serve as director of our company. The term of the Class I director who is elected at the annual meeting will expire at the annual meeting of our shareholders in the year 2009. Our Class II directors, whose terms will expire at the annual meeting of our shareholders in the year 2007, are Paul A. Gould and M. LaVoy Robison. Our Class III directors, whose terms will expire at the annual meeting of our shareholders in the year 2008, are Robert R. Bennett and John C. Malone.

If Mr. Wargo should decline re-election or should become unable to serve as a director of our company for any reason before the annual meeting, votes in favor of Mr. Wargo will be cast for a substitute nominee, if any, designated by the board of directors, or, if none is so designated prior to the election, votes will be cast according to the judgment of the person or persons voting the proxy.

The following lists the nominee for re-election as director and the four directors of our company whose terms of office will continue after the annual meeting, including the birth date of each person, the positions with our company or principal occupation of each person, certain other directorships held and the year each person became a director of our company. The number of shares of our common stock beneficially owned by each nominee or director, as of February 28, 2006, is set forth in this proxy statement under the caption Security Ownership of Certain Beneficial Owners and Management Security Ownership of Management.

**Nominee for Election as Director**

*J. David Wargo:* Born October 1, 1953. A director of our company since May 2005. Mr. Wargo has served as President of Wargo & Company, Inc., a private investment company specializing in the communications industry, since January 1993. Mr. Wargo is a director of Strayer Education, Inc., OpenTV Corp. and Liberty Global, Inc. ( LGI ).

**Directors Whose Terms Expire in 2007**

*Paul A. Gould:* Born September 27, 1945. A director of our company since May 2005. Mr. Gould has served as a Managing Director and Executive Vice President of Allen & Company Incorporated, an investment banking services company, for more than the last five years. Mr. Gould is a director of Liberty Media Corporation ( Liberty ), Ampco-Pittsburgh Corporation and LGI.

*M. LaVoy Robison.* Born September 6, 1935. A director of our company since May 2005. Mr. Robison has been executive director and a board member of The Anschutz Foundation (a private foundation) since January 1998. Mr. Robison is a director of Liberty.

**Directors Whose Terms Expire in 2008**

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*Robert R. Bennett:* Born April 19, 1958. President of our company since March 2005 and a director of our company since May 2005. Mr. Bennett served as President of Liberty from April 1997 to February 2006 and as Chief Executive Officer of Liberty from April 1997 to August 2005. Mr. Bennett held various executive positions since Liberty's inception in 1990. Mr. Bennett is a director of Liberty and OpenTV Corp.

*John C. Malone:* Born March 7, 1941. Chief Executive Officer and Chairman of the Board of our company since March 2005 and a director of our company since May 2005. Mr. Malone has served as Chairman of the Board and a director of Liberty since 1990. Mr. Malone served as Chief Executive Officer of Liberty from August 2005 to

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February 2006. Mr. Malone served as Chairman of the Board of Tele-Communications, Inc. ( TCI ) from November 1996 to March 1999 and Chief Executive Officer of TCI from January 1994 to March 1999. Mr. Malone is Chairman of the Board of LGI and a director of The Bank of New York and Expedia, Inc.

## **Vote and Recommendation**

A plurality of the affirmative votes of the shares of our common stock outstanding on the record date, voting together as a single class, that are voted in person or by proxy at the annual meeting is required to elect Mr. J. David Wargo as Class I member of our board of directors.

*Our board of directors recommends a vote **FOR** the election of the nominee to our board of directors.*

## **PROPOSAL 2 THE INCENTIVE PLAN APPROVAL PROPOSAL**

### **Background and Reason**

In connection with our spin off from Liberty, our board of directors, on May 3, 2005, approved and adopted the Discovery Holding Company 2005 Incentive Plan, which we refer to as the incentive plan , and determined to submit the incentive plan for the approval of Liberty Programming Company LLC, the subsidiary of Liberty, which was then our sole stockholder. On May 3, 2005, Liberty Programming Company LLC approved the incentive plan. In order for certain awards under the incentive plan to be eligible for favorable tax treatment under Section 162(m) of the Internal Revenue Code, the incentive plan must be approved by our public stockholders.

### **General**

The incentive plan is administered by the compensation committee of our board of directors. The compensation committee currently has three members: Paul A. Gould, M. LaVoy Robison and J. David Wargo. Each member is a non-employee director within the meaning of Rule 16b-3 of the Exchange Act and an outside director within the meaning of Section 162(m) of the Code. The compensation committee has the full power and authority to grant eligible persons the awards described below and to determine the terms and conditions under which any awards are made.

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

### **Summary of the Incentive Plan**

The following is a summary of the material provisions of the incentive plan and is qualified in its entirety by the complete text of the incentive plan, which is attached to this proxy statement as Annex A. The compensation committee may grant non-qualified stock options, stock appreciation rights (SARs), restricted shares, stock units, cash awards, performance awards or any combination of the foregoing under the incentive plan (collectively, awards). The maximum number of shares of all series of our common stock with respect to which awards may be issued under the incentive plan is 20 million. No person may be granted in any calendar year awards covering more than 2 million shares of our common stock. In addition, no person may receive payment for performance awards during any calendar

year in excess of \$10 million.

Shares of our common stock will be made available from either our authorized but unissued shares or shares that have been issued but reacquired by our company. Shares of our common stock that are subject to (1) any award that expires, terminates or is annulled for any reason without having been exercised and (2) any award of restricted

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shares or stock units that is forfeited prior to becoming vested, will once again be available for distribution under the incentive plan.

The compensation committee also has the power to:

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

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

determine the form and terms of the awards made under the incentive plan, including persons to be granted awards and the number of shares or other consideration subject to such awards;

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

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

## **Types of Awards that May Be Granted Under the Incentive Plan**

### ***Options***

Non-qualified stock options entitle the holder to purchase a specified number of shares of common stock at a specified exercise price subject to the terms and conditions of the option grant. The price at which options may be exercised under the incentive plan will be no less than the fair market value of the applicable series of our common stock as of the day the option is granted. The compensation committee determines, in connection with each option awarded to a holder, (1) the exercise price, (2) whether that price is payable in cash, by check, by promissory note, in whole shares of any series of our common stock, by the withholding of shares of our common stock issuable upon exercise of the option, by broker-assisted exercise or any combination of the foregoing, (3) other terms and conditions of exercise, (4) restrictions on transfer of the option and (5) other provisions not inconsistent with the incentive plan. Options granted under the incentive plan are generally non-transferable during the lifetime of an option holder, except as permitted by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

### ***Stock Appreciation Rights***

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



the laws of descent and distribution or pursuant to a qualified domestic relations order.

***Restricted Shares***

Restricted shares are shares of our common stock that become vested and may be transferred upon completion of the restriction period. Restricted shares may be issued at either the beginning or end of the restriction period. Individual agreements may provide that dividend equivalents will be paid during the restriction period in the event that shares are to be issued at the end of the restriction period. An agreement under which restricted shares are issued

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may also provide that the holder of the shares be paid a cash amount when the shares become vested. Upon the applicable vesting date, all or the applicable portion of restricted shares will vest, any retained distributions or unpaid dividend equivalents with respect to the such restricted shares will vest to the extent that the restricted shares related thereto have vested, and any cash award to be received by the holder with respect to such restricted shares will become payable.

***Stock Units***

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

***Cash Awards***

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

***Performance Awards***

At the discretion of the compensation committee, performance awards payable in cash may be granted and any of the other above-described awards may also be designated a performance award. Performance awards are contingent upon performance measures applicable to a particular period, as established by the compensation committee, based upon any one or more of the following, as the same may be defined by the compensation committee in connection with any such grant:

increased revenue;

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

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

price per share of common stock;

market share;

earnings per share (actual or targeted growth);

earnings before interest, taxes, depreciation and amortization;

economic value added (or an equivalent metric);

market value added;

debt to equity ratio;

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

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

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

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

margins;

stockholder value;

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total stockholder return;

proceeds from dispositions;

total market value; and

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

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

### **Awards Generally**

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

### **Adjustments**

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

### **Amendment and Termination of the Plan**

The compensation committee may terminate the incentive plan at any time prior to the tenth anniversary of the date on which the incentive plan became effective. The compensation committee may also suspend, discontinue, modify or amend the incentive plan any time prior to the tenth anniversary of the date on which the incentive plan became

effective. However, before an amendment can be made that would adversely affect a participant who has already been granted an award, the participant's consent must be obtained, unless the change is necessary to comply with section 409A of the Code. No awards can be made under the incentive plan after the tenth anniversary of the date on which the incentive plan became effective. The incentive plan became effective on May 3, 2005.

**United States Federal Income Tax Consequences**

The following is a summary of the general rules of present U.S. federal income tax law relating to the tax treatment of non-qualified stock options, SARs, restricted shares, stock units and cash awards issued under the

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incentive plan. The discussion is general in nature and does not take into account a number of considerations that may apply based upon the circumstances of a particular holder under the incentive plan, including the possibility that a holder may not be subject to U.S. federal income taxation.

***Non-Qualified Stock Options; SARs***

Holders will not realize taxable income upon the grant of a non-qualified stock option or a SAR. Upon the exercise of a non-qualified stock option or a SAR, the holder will recognize ordinary income (subject to withholding, if applicable) in an amount equal to the excess of (1) the fair market value on the date of exercise of the shares received over (2) the exercise price (if any) he or she paid for the shares. The holder will generally have a tax basis in any shares of our common stock received pursuant to the exercise of a SAR, or pursuant to the cash exercise of a non-qualified stock option that equals the fair market value of such shares on the date of exercise. Subject to the discussion under *Certain Tax Code Limitations on Deductibility* below, we will be entitled to a deduction for U.S. federal income tax purposes that corresponds as to timing and amount with the compensation income recognized by the holder under the foregoing rules. The disposition of the shares of our common stock acquired upon exercise of a non-qualified stock option will ordinarily result in capital gain or loss.

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

***Cash Awards; Stock Units; Restricted Shares***

A holder will recognize ordinary compensation income upon receipt of cash pursuant to a cash award or, if earlier, at the time such cash is otherwise made available for the holder to draw upon it. A holder will not have taxable income upon the grant of a stock unit but rather will generally recognize ordinary compensation income at the time the holder receives cash in satisfaction of such stock unit or shares of common stock in satisfaction of such stock unit in an amount equal to the fair market value of the shares received.

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

A holder who is an employee will be subject to withholding for federal, and generally for state and local, income taxes at the time the holder recognizes income under the rules described above with respect to the cash or the shares of our common stock received pursuant to awards. Dividends that are received by a holder prior to the time that the restricted shares are taxed to the holder under the rules described in the preceding paragraph are taxed as additional

compensation, not as dividend income. The tax basis of a holder in the shares of our common stock received will equal the amount recognized by the holder as compensation income under the rules described in the preceding paragraph, and the holder's holding period in such shares will commence on the date income is so recognized.

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

### ***Section 409A***

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

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

### ***Certain Tax Code Limitations on Deductibility***

In order for us to deduct the amounts described above, such amounts must constitute reasonable compensation for services rendered or to be rendered and must be ordinary and necessary business expenses. Our ability to obtain a deduction for future payments under the incentive plan could also be limited by Section 280G of the Code, which provides that certain excess parachute payments made in connection with a change of control of an employer are not deductible. Our ability to obtain a deduction for amounts paid under the incentive plan could also be affected by Section 162(m) of the Code, which limits the deductibility, for U.S. federal income tax purposes, of compensation paid to certain employees to \$1 million during any taxable year. In order for certain awards under the incentive plan to be eligible for favorable tax treatment under Section 162 (m) of the Code, we are submitting the incentive plan for the approval of our stockholders at the annual meeting. If the incentive plan proposal is not approved at the annual meeting, awards under the incentive plan will not be eligible for favorable tax treatment under Section 162(m) of the Code.

### ***Vote and Recommendation***

The affirmative vote of the holders of a majority of the aggregate voting power of the shares of our Series A common stock and Series B common stock entitled to vote that are present, in person or by proxy, at the annual meeting, voting together as a single class, is required to approve the Discovery Holding Company 2005 Incentive Plan.

*Our board of directors recommends a vote **FOR** the approval of the Discovery Holding Company 2005 Incentive Plan.*

## **PROPOSAL 3 THE AUDITORS RATIFICATION PROPOSAL**

We are asking our shareholders to ratify the selection of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2006.



Even if the selection of KPMG LLP is ratified, the audit committee of our board in its discretion may direct the appointment of a different independent accounting firm at any time during the year if our audit committee determines that such a change would be in the best interests of our company and our shareholders. In the event our shareholders fail to ratify the selection of KPMG LLP, our audit committee will consider it as a direction to select other auditors for the year ending December 31, 2007.

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A representative of KPMG LLP is expected to be present at the annual meeting, will have the opportunity to make a statement if that representative so desires and will be available to respond to appropriate questions.

**Audit Fees and All Other Fees**

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of our annual financial statements, including our consolidated subsidiaries, for 2005, and fees billed for other services rendered by KPMG LLP:

	<b>2005</b>
Audit fees	\$ 830,000
Audit related fees(1)	15,000
Audit and audit related fees	845,000
Tax fees(2)	200,000
Total fees	\$ 1,045,000

- (1) Audit related fees include fees incurred for due diligence related to potential business combinations and audits of financial statements of certain employee benefits plans.
- (2) Tax fees consisted of tax compliance and consultations regarding the tax implications of certain transactions.

Our audit committee has considered whether the provision of services by KPMG LLP to our company other than auditing is compatible with KPMG LLP maintaining its independence and does not believe that the provision of such other services is incompatible with KPMG LLP maintaining its independence.

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor**

On November 7, 2005, our audit committee adopted a policy regarding the pre-approval of all audit and permissible non-audit services provided by our independent auditor. Pursuant to this policy, our audit committee has approved the engagement of our independent auditor to provide (a) audit services as specified in the policy, including financial audits of our company and our subsidiaries, services associated with our registration statements such as consents and comfort letters, and consultations with management as to accounting or reporting of transactions; (b) audit-related services as specified in the policy, such as due diligence services, financial audits of employee benefit plans and assistance with implementation of the requirements of SEC rules or listing standards; and (c) tax services as specified in the policy, including federal, state, local and international tax planning, compliance and review services, and tax due diligence and advice regarding mergers and acquisitions (all of the foregoing, Pre-Approved Services).

Notwithstanding the foregoing general pre-approval, any individual project involving the provision of Pre-Approved Services that is expected to result in fees in excess of \$40,000 requires the specific pre-approval of our audit committee. In addition, any engagement of our independent auditors for services other than the Pre-Approved Services requires the specific approval of our audit committee. Our audit committee has delegated the authority for the foregoing approvals to the chairman of the audit committee. M. LaVoy Robison currently serves as the Chairman of our audit committee. At each audit committee meeting, the Chairman's approval of services provided by our independent auditors is subject to ratification by the entire audit committee.

The audit committee has established a policy governing the Company's use of KPMG LLP for non-audit services. Under the policy, management may use KPMG LLP for non-audit services that are permitted under law, provided that management obtains the audit committee's approval before such services are rendered.

All services provided by our independent auditor during 2005 were approved in accordance with the terms of the policy.

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**Vote and Recommendation**

The affirmative vote of the holders of a majority of the aggregate voting power of the shares of our Series A common stock and Series B common stock entitled to vote that are present, in person or by proxy, at the annual meeting, voting together as a single class, is required to ratify the selection of KPMG LLP as our independent auditors for the year ending December 31, 2006.

*Our board of directors recommends a vote **FOR** the ratification of the selection of KPMG LLP as our independent auditors for the year ending December 31, 2006.*

**CONCERNING MANAGEMENT**

**Executive Officers**

The following lists the executive officers of our company (other than those who also serve as a director and who are listed under Proposal 1 The Election of Director Proposal ), their birth dates and a description of their business experience, including positions held with our company.

<b>Name</b>	<b>Position</b>
David J.A. Flowers Born May 17, 1954	Senior Vice President and Treasurer of our company since March 9, 2005. A Senior Vice President of Liberty since October 2000 and Treasurer of Liberty since April 1997. Mr. Flowers served as a Vice President of Liberty from June 1995 to October 2000.
Albert E. Rosenthaler Born August 29, 1959	A Senior Vice President of our company since March 9, 2005. A Senior Vice President of Liberty since April 2002. Prior to joining Liberty, Mr. Rosenthaler was a tax partner in the accounting firm of Arthur Andersen LLP for more than five years.
Christopher W. Shean Born July 16, 1965	Senior Vice President and Controller of our company since March 9, 2005. A Senior Vice President of Liberty since January 2002 and Controller of Liberty since October 2000. Mr. Shean served as a Vice President of Liberty from October 2000 to January 2002.
Charles Y. Tanabe Born November 27, 1951	Senior Vice President, General Counsel and Secretary of our company since March 9, 2005. Mr. Tanabe has served as Secretary of Liberty since April 2001 and as a Senior Vice President and General Counsel of Liberty since January 1999. Mr. Tanabe is a director of Fun Technologies, Inc.

The executive officers named above will serve in such capacities until the next annual meeting of our board of directors, or until their earlier death, resignation, disqualification or removal from office.

There is no family relationship among any of our executive officers or directors, by blood, marriage or adoption.

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

**Section 16(a) Beneficial Ownership Reporting and Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten-percent shareholders are required by SEC regulation to furnish us with copies of all Section 16 forms they file.

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Based solely on a review of the copies of the Forms 3, 4 and 5 and amendments to those forms furnished to us with respect to our most recent fiscal year, or written representations that no Forms 5 were required, we believe that, during the year ended December 31, 2005, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten-percent beneficial owners were complied with, except that one report covering three transactions was filed late by John C. Malone our Chairman and Chief Executive Officer.

## **Code of Conduct**

We have adopted a code of business conduct and ethics that applies to all of our employees, directors and officers. Our code of business conduct and ethics constitutes our code of ethics within the meaning of Section 406 of the Sarbanes-Oxley Act and our code of conduct within the meaning of the Nasdaq Stock Market rules. Our code of business conduct and ethics is available on our website at [www.discoveryholdingcompany.com](http://www.discoveryholdingcompany.com). In addition, we will provide a copy of our code of business conduct and ethics, free of charge, to any shareholder who calls or submits a request in writing to Investor Relations, Discovery Holding Company, 12300 Liberty Boulevard, Englewood, Colorado 80112, Tel. No. (866) 876-0461.

## **Director Independence**

A majority of the members of our board of directors meet the definition of independent director under the Nasdaq Stock Market qualification standards. After review of all relevant transactions or relationships between each director, or any of his family members, and our company, its senior management and its independent auditors, the board of directors affirmatively has determined that all of our directors are independent directors within the meaning of the applicable Nasdaq listing standards except for Mr. Malone, who is our Chairman and Chief Executive Officer and Mr. Bennett, who is our President.

## **Committees of the Board of Directors**

### ***Executive Committee***

Our board of directors has established an executive committee, whose members are Robert R. Bennett, Paul A. Gould and John C. Malone. Except as specifically prohibited by the General Corporation Law of the State of Delaware, the executive committee may exercise all the powers and authority of our board of directors in the management of our business and affairs, including the power and authority to authorize the issuance of shares of our capital stock.

### ***Compensation Committee***

Our board of directors has established a compensation committee, whose members are Paul A. Gould, M. LaVoy Robison and J. David Wargo. The compensation committee reviews and makes recommendations to our board of directors regarding all forms of compensation provided to our executive officers and directors. In addition, the compensation committee reviews and makes recommendations on bonus and stock compensation arrangements for all of our employees and has responsibility for the administration of our incentive plan.

Our board of directors has adopted a written charter for the compensation committee, which is available on our website at [www.discoveryholdingcompany.com](http://www.discoveryholdingcompany.com). In addition, we will provide a copy of this charter, free of charge, to any shareholder who calls or submits a request in writing to Investor Relations, Discovery Holding Company, 12300 Liberty Boulevard, Englewood, Colorado 80112, Tel. No. (866) 876-0461.

### ***Audit Committee***

Our board of directors has established an audit committee, whose members are Mr. Gould, Mr. Robison and Mr. Wargo. Our board of directors has determined that each of Messrs. Gould, Robison and Wargo are independent, as independence is defined for audit committee members in the rules of the Nasdaq Stock Market as well as in the rules and regulations adopted by the SEC. In addition, our board of directors has determined that M. LaVoy Robison qualifies as an audit committee financial expert under applicable rules and regulations adopted by the SEC. The

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audit committee reviews and monitors the corporate financial reporting and the internal and external audits of our company. The committee's functions include, among other things:

appointing or replacing our independent auditors;

reviewing and approving in advance the scope of and fees for our annual audit and reviewing the results of our audits with our independent auditors;

reviewing and approving in advance the scope of and fees for non-audit services of our independent auditors;

reviewing audited financial statements with our management and independent auditors and making recommendations regarding inclusion of such audited financial statements in certain of our public filings;

overseeing the performance of services by our independent auditors, including holding quarterly meetings to review the quarterly reports of our independent auditors, discussing with our independent auditors issues regarding the ability of our independent auditors to perform such services, obtaining, annually, a letter from our independent auditors addressing certain internal quality-control issues, reviewing with our independent auditors any audit-related problems or difficulties and the response of our management, and addressing other general oversight issues;

reviewing compliance with and the adequacy of our existing major accounting and financial reporting policies;

overseeing the implementation and maintenance of an internal audit function, discussing with our independent auditors and our management the internal audit function's responsibilities, budget and staff, periodically reviewing with our independent auditors the results and findings of the internal audit function and coordinating with our management to ensure that the issues associated with such results and findings are addressed;

reviewing and overseeing compliance with, and establishing procedures for the treatment of alleged violations of, applicable securities laws, SEC and Nasdaq Stock Market rules regarding audit committees and the code of business conduct and ethics adopted by our board of directors; and

preparing a report for our annual proxy statement.

Our board of directors has adopted a written charter for the audit committee, which is included as Annex B to this proxy statement. The charter is also available on our website at [www.discoveryholdingcompany.com](http://www.discoveryholdingcompany.com). We will provide a copy of the charter, free of charge, to any shareholder who calls or submits a request in writing to Investor Relations, Discovery Holding Company, 12300 Liberty Boulevard, Englewood, Colorado 80112, Tel. No. (866) 876-0461.

**Audit Committee Report.** Each member of the audit committee is an independent director as determined by the board of directors of Discovery Holding Company, based on the rules of the Nasdaq Stock Market and the criteria of director independence adopted by the board. Each member of the audit committee also satisfies the SEC's independence requirements for members of audit committees. M. LaVoy Robison is Discovery Holding Company's audit committee financial expert under applicable SEC rules and regulations.

The audit committee reviews Discovery Holding Company's financial reporting process on behalf of the board of directors. KPMG LLP, Discovery Holding Company's independent auditor for 2005, is responsible for expressing opinions on the conformity of Discovery Holding Company's audited consolidated financial statements with U.S. generally accepted accounting principles.



The audit committee has reviewed and discussed with management and KPMG Discovery Holding Company's most recent audited consolidated financial statements. The audit committee has also discussed with KPMG the matters required to be discussed by the Statement on Auditing Standards No. 61, Communication with Audit Committees, as modified or supplemented, including that firm's judgment about the quality of Discovery Holding Company's accounting principles, as applied in its financial reporting.

KPMG has provided the audit committee with the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as modified or supplemented,

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and the audit committee has discussed with KPMG that firm's independence from Discovery Holding Company and its subsidiaries.

Based on the reviews, discussions and other considerations referred to above, the audit committee recommended to the board of directors of Discovery Holding Company that the audited financial statements be included in Discovery Holding Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed on March 23, 2006 with the SEC.

*Submitted by the Members of the Audit Committee:*

*Paul A. Gould*

*M. LaVoy Robison*

*J. David Wargo*

## ***Absence of a Nominating Committee***

We do not have a standing nominating committee. The board as a whole performs the functions of a nominating committee for purposes of the annual selection of nominees for the election of directors. We believe a nominating committee is not necessary because the board as a whole is familiar with the industries in which our company operates and is knowledgeable regarding the selection of directors. In addition, a majority of our directors are considered independent directors within the meaning of the applicable rules of the Nasdaq Stock Market. The board does not have a charter or other written guidelines for its nominating process. While the board will consider nominees recommended by shareholders, it has not actively solicited such recommendations, nor has it to date established any director nominee criteria or shareholder nominee procedures. The board has historically selected nominees based on their business, financial, accounting or other relevant expertise, their prior experience in the industries in which our company operates and their involvement with our company.

## ***Other***

The board, by resolution, may from time to time establish certain other committees of the board, consisting of one or more of our directors. Any committee so established will have the powers delegated to it by resolution of the board, subject to applicable law.

## **Board Meetings**

During 2005, there were five meetings of our full board of directors, one meeting of our compensation committee and three meetings of our audit committee. None of our directors missed a board meeting or a committee meeting.

## **Director Attendance at Annual Meetings**

Our board of directors encourages all members to attend each annual meeting of the company's stockholders. Because the company was spun off from Liberty on July 21, 2005, the company did not hold a 2005 annual stockholders meeting.

## **Shareholder Communication with Directors**

Our shareholders may send communications to our board of directors or to individual directors by mail addressed to the Board of Directors or to an individual director c/o Discovery Holding Company, 12300 Liberty Boulevard, Englewood, Colorado 80112. Communications from shareholders will be forwarded to our directors on a timely basis.

**Executive Sessions**

Following Discovery Holding Company's spin off from Liberty, the independent directors of our company held one executive session without the participation of management during 2005.

**Table of Contents****Executive Compensation**

The table below sets forth information relating to compensation allocated to us by Liberty for our Chief Executive Officer and our five other most highly compensated executive officers as of December 31, 2005, who we refer to as our named executive officers. Although certain of the individuals who are our named executive officers were performing services in connection with our businesses prior to our spin off in July 2005, those individuals were not dedicated exclusively to our businesses and devoted substantial time and effort to other Liberty businesses or to the Liberty organization in general. Accordingly, no information on the compensation of our named executive officers for periods prior to July 2005 is reported.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation(1)		Other Annual Compensation	All Other Compensation
		Salary	Bonus		
John C. Malone <i>Chief Executive Officer</i>	2005	\$ 195	\$	\$ 37,155	\$
Robert R. Bennett <i>President</i>	2005	\$ 75,000	\$	\$	\$
David J.A. Flowers <i>Senior Vice President and Treasurer</i>	2005	\$ 6,938	\$	\$	\$
Albert E. Rosenthaler <i>Senior Vice President</i>	2005	\$ 13,875	\$	\$	\$
Christopher W. Shean <i>Senior Vice President and Controller</i>	2005	\$ 55,500	\$	\$	\$
Charles Y. Tanabe <i>Senior Vice President, General Counsel and Secretary</i>	2005	\$ 68,000	\$	\$	\$

(1) During 2005, each of our named executive officers was also an officer of Liberty. We do not compensate our executive officers directly. However, pursuant to a services agreement between our company and Liberty, Liberty allocates a portion of the compensation it pays to our named executive officers to us based on an estimate of the percentage of time each executive spends on matters related to our company. These allocation percentages are reviewed semi-annually and adjusted as necessary. In addition to the salary amounts included in the table, Liberty allocates to us an amount for employee benefits calculated as 15% of the amount of each executive's salary that is allocated to us. The amounts in the table represent amounts allocated to us by Liberty for the six months ended December 31, 2005.

**Table of Contents*****Option and SAR Grants in Last Fiscal Year***

In connection with our spin off from Liberty, each outstanding Liberty stock option and stock appreciation right (collectively, a Liberty Award ) held by individuals who are directors, officers or employees of Liberty (including our named executive officers) was divided into (A) an option (a Spin Off DHC Option ) to purchase a number of shares of the same series of our common stock as the series of Liberty common stock for which the outstanding Liberty Award was exercisable equal to 0.10 times the number of shares for which the Liberty Award was exercisable and (B) an adjusted option or stock appreciation right, as applicable, with respect to shares of Liberty common stock equal to the same series and number of shares of Liberty common stock for which the Liberty Award was exercisable. The exercise price or base price of each Liberty Award was allocated between the Spin Off DHC Option and the Liberty Award. We did not grant any options or SARs to our named executive officers during 2005, other than Spin Off DHC Options to which they may have been entitled. Spin Off DHC Options granted to our named executive officers are set forth in the following table.

<b>Name</b>	<b>Number of Securities Underlying Options Granted</b>	<b>Series of DHC Common Stock</b>	<b>Exercise or Base Price</b>	<b>Expiration Date</b>
John C. Malone	138	Series A	\$ 405.13	February 28, 2007
	1,148,540	Series B	\$ 19.06	February 28, 2011
	20,000	Series A	\$ 14.67	June 14, 2015
	180,000	Series B	\$ 15.91	June 14, 2015
Robert R. Bennett				