BARNES GROUP INC
Form PRE 14A
March 10, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

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 § 240.14a-12

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

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(4) Date Filed:

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123 Main Street
Bristol, Connecticut 06010

March 20, 2017

NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS

You are invited to attend Barnes Group Inc. s 2017 Annual Meeting of Stockholders on Friday, May 5, 2017 at the DoubleTree By Hilton, 42 Century Drive, Bristol, CT 06010, at 11:00 a.m., Eastern Daylight Time. Proposals to be considered at the Annual Meeting include:

	Proposal	Board Vote Recommendation
1.	Election of 11 directors (page 2)	**FOR**
2.	Ratify the Company s Bylaw amendment allowing proxy access (page 12)	**FOR**
3.	Advisory vote to approve the Company s executive compensation (page 15)	**FOR**
4.	Advisory resolution regarding the frequency of holding an advisory vote on the Company s executive compensation (page 16)	**FOR Annual Frequency**
5.	Ratify the selection of PricewaterhouseCoopers LLP as the Company s independent auditor for 2017 (page 52)	**FOR**
	To conduct such other business that may properly come before the meeting	

Stockholders of record at the close of business on March 9, 2017 (Record Date) may vote at the meeting. Each share of our common stock is entitled to one vote for each director nominee and one vote for each of the proposals to be voted on.

The Board of Directors recommends a vote FOR Proposals 1, 2, 3 and 5 and FOR annual relative to Proposal 4.

Your vote is important. **Whether or not you plan to attend the meeting, we encourage you to vote as promptly as possible.** Stockholders of record on the Record Date are entitled to vote at the meeting or in the following ways:

Phone	In the U.S. or Canada, you can vote your shares by calling +1 (800) 690-6903	**Internet**	You can vote your shares using the internet at www.proxyvote.com. You will need the 12-digit control number on the Notice of Internet Availability or proxy card.
QR CODE	You can vote your shares by scanning the QR code. You will need the 12-digit control number on the Notice of Internet Availability or proxy card. Additional software may need to be downloaded.	**Mail**	You can vote by mail by marking, dating and signing your proxy card or voting instruction form and returning it in the postage-paid envelope.

Thomas O. Barnes
Chairman of the Board

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PROXY SUMMARY

This summary highlights information contained elsewhere in this proxy statement. Please read the entire proxy statement carefully before voting.

MEETING AGENDA AND VOTING RECOMMENDATIONS

	Proposal	Board Vote Recommendation
1.	Election of 11 directors (page 2)	**FOR**
2.	Ratify the Company s Bylaw amendment allowing proxy access (page 12)	**FOR**
3.	Advisory vote to approve the Company s executive compensation (page 15)	**FOR**
4.	Advisory resolution regarding the frequency of holding an advisory vote on the Company s executive compensation (page 16)	**FOR Annual Frequency**
5.	Ratify the selection of PricewaterhouseCoopers LLP as the Company s independent auditor for 2017 (page 52)	**FOR**

To conduct such other business that may properly come before the meeting

2017 DIRECTOR NOMINEES

Name and Principal Occupation	Age	Committee Memberships Audit	CMDC	CG
Thomas O. Barnes Chairman of the Board, Barnes Group Inc.	68			
Elijah K. Barnes Principal, Avison Young	36			
Gary G. Benanav Former CEO, New York Life International, LLC and Former Vice Chairman and Director, New York Life Insurance Company	71			
Patrick J. Dempsey President and CEO, Barnes Group Inc.	52			
Thomas J. Hook President and CEO, Integer	54			
Mylle H. Mangum CEO, IBT Enterprises, LLC	68		Chair	
Hans-Peter Männer Managing Director of Proventus Verwaltungs-GmbH	54			
Hassell H. McClellan Former Associate Professor of Finance and Policy, Boston College s Wallace E. Carroll School of Management	71			Chair
William J. Morgan Former Partner, KPMG LLP	70	Chair		
Anthony V. Nicolosi Former Regional Risk Management Partner for the Americas, KPMG LLP	63			
JoAnna L. Sohovich CEO, The Chamberlain Group, Inc.	45			
Number of meetings held in 2016		**8**	**4**	**3**

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BOARD HIGHLIGHTS

Nominees for Director shall be selected on the basis of their qualifications, such as:

Character, wisdom, judgment and integrity
Experience in positions with a high degree of responsibility
Prominence and accomplishments in areas relevant to the Company s business activities
Understanding of the Company s business environment
Strategy-development, experience in technology-laden industrial businesses and/or other relevant firms
Commitment to maximize stockholder value
The capacity and desire to represent the interests of the Company s stockholders as a whole
The extent to which the interplay of the Nominee s skills, knowledge, expertise and diversity of background with that of the other Board members will help build a Board that is effective in collectively meeting the Company's strategic needs and serving the long-term interests of the Company or its stockholders
Ability to devote sufficient time to the affairs of the Company

CEO Experience 6

Manufacturing Expertise 5

Financial Experience 6

Diversity 3

2016 Tenure Average 11 years

Historical Tenure Average

2013 15 yrs. 2014 13 yrs. 2015 14 yrs.

Board Engagement

Board and Committee attendance exceeded 98.8% for the last 8 years

	BOD	AC	CMDC	CG
Attendance (2009 to 2016)	98.8%	99%	98.8%	100%
# of Meetings	77	68	35	26

Key Accomplishments:

Declared continuous dividends since 1934
Adopted Lead Independent Director role

Adopted political contributions policy
Adopted proxy access
Set director age limits
Required majority voting in uncontested director elections
Declassified the Board

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GOVERNANCE HIGHLIGHTS

Board Practices

Annual evaluation processes for the Board and each of the standing committees
Directors may not stand for election after age 72
Regular consideration of rotation of committee chairs and members
Corporate Governance Guidelines require directors to attend director education programs and briefing sessions
A prohibition on directors simultaneously serving on more than three public company audit committees, including that of the Company
Restrictions on hedging and pledging Company stock by directors and executive officers

Lead Independent Director

Lead Independent Director with clearly established authority and responsibility over Board governance and operations
Selected by independent directors
Serves as a liaison between the Chairman of the Board and the independent directors

Other Best Practices

A policy that requires Corporate Governance Committee approval before an executive officer accepts outside board membership with for-profit entities
Bylaw amendment allowing proxy access
Stockholder engagement and outreach to allow for management and the Board to understand and consider issues that matter most to stockholders and enable the Company to address them effectively

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2016 EXECUTIVE COMPENSATION KEY ELEMENTS

The following summary of specific features of our executive compensation program highlights our commitment to executive compensation practices that align the interests of our executive officers and stockholders.

What We Do

EQUITY

Stock Options
Time-based vesting; 18, 30 and 42 months from the grant date in equal installments.

Restricted Stock Units
Time-based vesting; 18, 30 and 42 months from the grant date in equal installments.

Performance Share Awards
Performance-based vesting at the end of a 3-year cycle; based on two equally weighted measures: Total Shareholder Return (TSR) relative to the performance of the Russell 2000 Index companies; and Return On Invested Capital (ROIC) performance against an absolute internal goal as determined by the Compensation Committee.

CASH

Salary
Base salaries are reviewed annually and are typically increased at periodic intervals, often at the time of a change in position or assumption of new responsibilities.

Annual Incentive Compensation
Stockholder-approved program with payouts based on accomplishing targeted financial performance measures. Annual incentive targets for our NEOs range from 45% to 75% of base salary at target level performance. Actual payouts may range from zero to three times target based on performance compared to our three performance measures.

RETIREMENT
NEOs participate in qualified retirement programs generally available to the Company s US employees. NEOs also participate in a nonqualified retirement program that provides benefits on base salary earnings in excess of Internal Revenue Service (IRS) limits on qualified plans. Messrs. Dempsey and Stephens also participate in grandfathered nonqualified executive retirement programs that are closed to new entrants.

CHANGE IN CONTROL AND SEVERANCE
Severance payable and benefit continuation upon termination of employment in certain specified circumstances or upon a change in control. Severance ranges from a multiple of one times base salary plus pro rata bonus for certain non-change in control events, to two times base salary plus pro rata bonus and additional benefits for other change in control events.

LIMITED PERQUISITES
Financial planning and tax preparation services, annual physicals (for amounts not otherwise covered by health insurance) and executive life insurance (with tax gross-up benefit for grandfathered participants only).

What We Don t Do

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2016 NEO COMPENSATION SUMMARY

Name & Principal Position	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Comp.	Change in Pension Value & Nonqualified Deferred Comp. Earnings	All Other Comp.	Total
Patrick J. Dempsey President and CEO	$ 800,000	$ 0	$ 3,054,284	$ 532,073	$ 670,103	$ 902,828	$ 210,378	$ 6,169,666
Christopher J. Stephens, Jr. SVP, Finance and CFO	461,000	0	670,851	142,801	257,431	67,084	162,030	1,761,197
Scott A. Mayo SVP and President, Barnes Industrial	425,000	0	425,945	90,624	256,103	0	27,859	1,225,531
Michael A. Beck [1] SVP and President, Barnes Aerospace	325,000	55,000	950,214	195,986	85,007	0	62,075	1,673,282
James P. Berklas SVP, General Counsel and Secretary	370,000	0	288,630	61,789	185,954	0	27,891	934,264

1. Mr. Beck s salary represents a portion of his $390,000 base salary since he joined the Company effective March 2016.

2018 ANNUAL MEETING

Deadline for stockholder proposals to be included in the proxy statement for the 2018 Annual Meeting of Stockholders: November 23, 2017.

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PROXY STATEMENT FOR 2017
ANNUAL MEETING OF STOCKHOLDERS
MAY 5, 2017

We are sending this proxy statement and a proxy or voting instruction form in connection with Barnes Group Inc. s solicitation of proxies on behalf of its Board of Directors (Board), for our 2017 Annual Meeting of Stockholders (2017 Annual Meeting). Availability of this proxy statement and accompanying materials is scheduled to begin on or about March 20, 2017. Please submit your vote and proxy by telephone, the internet, or if you received your materials by mail, you can also complete, sign, date and return your proxy or voting instruction form.

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GOVERNANCE

The Company is committed to good corporate governance, which promotes the long-term interests of stockholders. Our Board and senior management devote considerable time and attention to corporate governance matters and we maintain a comprehensive set of policies and procedures to enable effective corporate governance. We regularly review best practices in corporate governance and modify our policies and procedures as warranted. We also solicit feedback from stockholders on governance and executive compensation practices.

You can access our governance materials on our website at *www.BGInc.com*; click on *Investor Relations* and then *Corporate Governance.* These documents will also be provided without charge to any stockholder upon written request to Legal Services, Barnes Group Inc., 123 Main Street, Bristol, Connecticut 06010.

Governance Materials

Certificate of Incorporation

Bylaws

Charters for our Audit, Compensation and Corporate Governance Committees

Code of Business Ethics and Conduct

Corporate Governance Guidelines

Corporate Social Responsibility Report

Political Activity Policy

Proposal 1 Election of Directors

Upon the recommendation of the Corporate Governance Committee, the Board has nominated Thomas O. Barnes, Elijah K. Barnes, Gary G. Benanav, Patrick J. Dempsey, Thomas J. Hook, Mylle H. Mangum, Hans-Peter Männer, Hassell H. McClellan, William J. Morgan and JoAnna L. Sohovich to be elected at the 2017 Annual Meeting for continuing membership to the Board. The Board also recommends Anthony V. Nicolosi for election to the Board as a first time nominee.

The Board has determined that except for Messrs. T. Barnes, Dempsey and Männer, each nominee is an independent director. If elected, each nominee will hold office until the 2018 annual meeting unless any of them earlier dies, resigns, retires or is removed, as provided in the Bylaws.

The eleven nominees are listed below with brief biographies. Each director has been associated with his or her present organization for at least the past five years unless otherwise noted. None of the organizations listed as business affiliates of the directors is a subsidiary or other affiliate of the Company unless otherwise noted.

If a nominee for director should become unavailable for any reason, it is intended that votes will be cast for a substitute nominee designated by the Board. The Board has no reason to believe the persons nominated will be unable to serve if elected.

The Board recommends a vote FOR all nominees.

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Board Of Directors

NOMINEES FOR ELECTION

THOMAS O. BARNES **Age**: 68 **Director since**: 1978 **Committees**: None

Mr. Barnes is Chairman of the Board and was a non-management employee of the Company through December 31, 2014. From 2007 until 2012 he served as a director of New England Bank Shares, Inc. He served as a director of Valley Bank from 2005 to 2007 when it was merged into New England Bank Shares, Inc. Mr. Barnes qualifications to be a member of our Board include his experience in the fields of manufacturing, finance and governance with numerous organizations throughout his career, including the Company s former distribution business. In addition, Mr. Barnes has owned and managed several businesses and has experience in the commercial lending field. He has served on the Board for over 35 years, has served as Chairman of our Board since 1995, and has served as chairman, trustee or director for over 20 non-profit organizations.

ELIJAH K. BARNES **Age**: 36 **Director since**: 2016 **Committees**: Audit

Mr. Barnes has over 13 years of experience in the areas of commercial real estate, lease negotiation and finance. He currently is Principal, Avison Young since 2014, where he is the co-head of the Agency Leasing Practice Group for the Washington D.C. office. From 2008 to 2014, he was Managing Director and Principal at Cassidy Turley. Prior to this, he was Vice President for the Leasing Management Group at Jones Lang LaSalle. Mr. Barnes qualifications to serve on our Board include his significant real estate experience that contributes to the Company s management of its extensive owned and leased real estate portfolio. In addition to his business and financial qualifications, Mr. Barnes membership on the Board continues a legacy of family oversight, sixth generation as Mr. T. Barnes son, that is uniquely devoted to the Company s long-term success and returning value to Company stockholders.

GARY G. BENANAV **Age**: 71 **Director since**: 1994 **Committees**: CMDC, CG

Mr. Benanav retired in March 2005 from New York Life International, LLC where he was the Chief Executive Officer from December 1997, and the Vice Chairman and a director of New York Life Insurance Company from November 1999. From January 2000 to May 2016, he served as a director of Express Scripts Holding Company (ESI), a full-service pharmacy benefit management company. Mr. Benanav s qualifications to be a member of our Board include having served as the executive officer of two U.S. corporations with assets in excess of $100 billion, extensive international business experience, extensive management responsibility for U.S. and international insurance and financial services companies, experience in dealing with regulators and legislators, extensive knowledge of finance and accounting matters including complex financial statement and accounting issues across various types of businesses, and practice as a business attorney for 15 years, including serving as a legal advisor to boards of directors for over five years. In addition, Mr. Benanav received a Presidential appointment as U.S. representative to APEC Business Advisory Council (2002 to 2005).

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PATRICK J. DEMPSEY **Age**: 52 **Director since**: 2013 **Committees**: None

Mr. Dempsey was appointed the President and Chief Executive Officer of the Company in March 2013. Prior to this appointment, since February, 2012, he served as the Company s Senior Vice President and Chief Operating Officer, and was responsible for oversight and direction of the Company s global business segments, as well as working closely on the development and execution of the Company s strategic plan. Mr. Dempsey joined the Company in October 2000 and has held a series of roles of increasing responsibility. He was appointed Vice President, Barnes Group Inc. and President, Barnes Aerospace in 2004, Vice President, Barnes Group Inc. and

President, Barnes Distribution in October 2007, and Vice President, Barnes Group Inc. and President, Logistics and Manufacturing Services in October 2008. He is currently a director of Nucor Corporation having been appointed in 2016. Mr. Dempsey s qualifications to be a member of our Board include his extensive knowledge of the Company s business operations and his depth of experience in the fields of business management, enterprise management systems, business development and international operations.

THOMAS J. HOOK **Age**: 54 **Director since**: 2016 **Committees**: Audit

Mr. Hook has been the President and Chief Executive Officer of Integer (formerly Greatbatch) since August 2006. Prior to this, he was Chief Operating Officer, a position to which he was appointed in September 2004. From August 2002 until September 2004, Mr. Hook was employed by CTI Molecular Imaging where he served as President, CTI Solutions Group. From March 2000 to July 2002, he was General Manager, Functional and Molecular Imaging for General Electric Medical Systems. From 1997 to 2000, Mr. Hook worked for the Van Owen Group Acquisition Company and prior to that, Duracell, Inc. He is Chairman of the Board of HealthNow New York, Inc., a leading health care company in Western New York that provides quality health care services to companies and individuals in that region, and serves on its executive committee. Mr. Hook s qualifications to be a member of our Board include his wealth of leadership experience, particularly in the high-tech manufacturing industry, together with his substantial knowledge of finance and accounting by virtue of his educational background and multiple executive management positions.

MYLLE H. MANGUM **Age**: 68 **Director since**: 2002 **Committees**: CMDC (Chair)

Ms. Mangum has served as Chief Executive Officer of IBT Enterprises, LLC, a leading provider of branch banking solutions, since October 2003. Prior to this, she served as the Chief Executive Officer of True Marketing Services, LLC since July 2002, focusing on consolidating marketing services companies. From 1999 to 2002, she was the Chief Executive Officer of MMS Incentives, Inc., a private equity company involved in developing and implementing marketing and loyalty programs in high-tech environments. She is currently a director of PRGX Global, Inc., Haverty Furniture Companies, Inc., and Express, Inc. She also served as a director of Collective Brands Inc., and its predecessor PaylessShoeSource, Inc., from 1997 to 2012, Scientific-Atlanta, Inc. from 1993 to 2006, Respironics, Inc. from 2004 to 2008, Matria Healthcare, Inc. from 2006 to 2008, and Emageon Inc. from 2004 to 2009. Ms. Mangum s qualifications to be a member of our Board include her current service as a chief executive officer, and extensive business and management experience including, in addition to that mentioned above, serving as an executive with General Electric, BellSouth and Holiday Inn Worldwide. She has extensive knowledge of marketing, accounting and finance, as well as compliance and internal controls.

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HANS-PETER MÄNNER **Age**: 54 **Director since**: 2016 **Committees**: None

Hans-Peter Männer is the former Chief Executive Officer of Otto Männer GmbH, a leader in the development and manufacture of high precision molds, valve gate hot runner systems, and micro-injection molding systems which the Company acquired in 2013. Prior to joining Männer in 1990, Mr. Männer studied product engineering at the University of Applied Sciences, graduating as a civil engineer completing three years vocational training as a toolmaker. He has over 18 years experience as a board member for Volksbank Freiburg and over 10 years experience as a board member for WVIB Wirtschaftsverband, a trade association. Mr. Männer is currently the Managing Director of Proventus Verwaltungs-GmbH, a limited partnership managing properties and capital assets. He holds an Executive MBA from Steinbeis University, Berlin. The Board appointed Mr. Männer to the Board as a director in 2016. Mr. Männer s qualifications to be a member of our Board include his extensive experience in the plastic injection molding industry and industrial manufacturing, together with a background in finance and asset management. As such, Mr. Männer is well-qualified to help lead the strategic direction and investment decisions for the Company s evolving portfolio of differentiated technologies.

HASSELL H. MCCLELLAN **Age**: 71 **Director since**: 2010 **Committees**: Audit, CG (Chair)

Dr. McClellan retired in 2013 as an Associate Professor of Finance and Policy at Boston College s Wallace E. Carroll School of Management, where he served as the Associate Dean from 1996 to 2000. Dr. McClellan had been a member of the faculty of Boston College since 1984. He specializes in global competitiveness and strategic management for boards of directors and financial services, and has both an MBA and a Doctor of Business Administration degree. Dr. McClellan has served as trustee of the Virtus Variable Insurance Trust (formerly Phoenix Edge Series Fund) since 2008, as trustee of both the John Hancock Variable

Insurance Trust and John Hancock Funds II since 2005, as trustee of John Hancock Funds and John Hancock Funds III since 2012, and as trustee of Virtus Mutual Funds since January 1, 2015. Dr. McClellan s qualifications to be a member of our Board include his extensive experience and expertise in global competitiveness, strategic planning and finance. In addition to his academic achievements in these areas, he has served as a board member or trustee of more than ten non-profit and private organizations.

WILLIAM J. MORGAN **Age**: 70 **Director since**: 2006 **Committees**: Audit (Chair), CG

Mr. Morgan is a retired partner of the accounting firm KPMG LLP (KPMG) where he served clients in the industrial and consumer market practices. After his retirement in 2006, and until 2010, he was a consultant to KPMG s Leadership Development Group and Dean of

KPMG s Chairman s 25 Leadership Development Program. He is the Audit Committee financial expert of our Board. From 2004 until 2006, Mr. Morgan was the Chairman of KPMG s Audit Quality Council and, from 2002 until 2006, he was a member of its Independence Disciplinary Committee. He previously served as the Managing Partner of KPMG s Stamford, Connecticut office. Mr. Morgan is currently a director of PGT, Inc. and The J.G. Wentworth Company. He previously served as a member of the Boards of Directors for KPMG and KPMG Americas. In addition to his service with KPMG and on other boards of directors, Mr. Morgan s qualifications to be a member of our Board include his 39 year career and expertise in the accounting and auditing fields, as well as his extensive practice as a certified public accountant and experience working with global industrial companies relative to accounting, finance, auditing, controls, risk management, compliance and corporate governance.

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JOANNA L. SOHOVICH **Age**: 45 **Director since**: 2014 **Committees**: CMDC

Ms. Sohovich is the Chief Executive Officer of The Chamberlain Group, Inc. since February 2016. Prior to that she was the Global President, STANLEY Engineered Fastening at Stanley Black & Decker, Inc. where she led a global technology and manufactured goods business. Before being appointed to this position in 2015, she served as Global President, Industrial & Automotive Repair since 2012 and, prior to that, Industrial & Automotive Repair President - North America, Asia and Emerging Regions since 2011, both at Stanley Black & Decker, Inc. From 2002 to 2011, Ms. Sohovich served in several roles of increasing responsibility at Honeywell International, including President, Security & Communications from 2010 to 2011 emphasizing new product development and innovation, Vice President & General Manager, Commercial Building Controls from 2008 to 2010, leading growth initiatives across a broad commercial building controls portfolio, and Integration Leader from 2007 to 2008 resulting in Honeywell s successful acquisition and integration of Maxon Corporation. Ms. Sohovich served as Vice President, Six Sigma for Honeywell from 2004 to 2005. Her earlier experience includes Plant Management, Repair and Overhaul Shop Management, Quality Management and service as an officer in the United States Navy. Ms. Sohovich s qualifications to be a member of our Board include her extensive executive management and leadership experience, broad knowledge of industrial manufacturers, global mindset and direct experience in driving innovation and strategic growth initiatives.

FIRST TIME NOMINEE FOR ELECTION

ANTHONY V. NICOLOSI **Age**: 63 **Director Nominee** **Committees**: None

Mr. Nicolosi is a retired partner of the accounting firm KPMG LLP (KPMG) where he had an approximately 39 year career. Most recently, Mr. Nicolosi served in the Firm's National Office from 2008 to 2013 as the Regional Risk Management Partner for the Americas (one of three KPMG Global Regions), the National Partner in charge of Risk Management for the US Audit Practice and the Coordinator of the Firm-wide Enterprise Risk Management Process. He also served as a member of the Global Quality and Risk Management Steering Group; US Legal, Risk and Regulatory Committee; Audit Operations Leadership and others. From 1987 to 2008, Mr. Nicolosi held positions as Engagement Partner or SEC

Reviewing Partner for US and multinational clients in many industries, including diversified industrials and power generation. For certain years in this period, Mr. Nicolosi served in the National Office's Department of Professional Practice and held various leadership positions. Mr. Nicolosi also served for over 10 years as a panel member on KPMG's Audit Committee Institute roundtables and other related initiatives. Mr. Nicolosi's qualifications to be a member of our Board include his extensive practice as a certified public accountant and experience relative to accounting, auditing, internal controls, risk management, compliance and corporate governance acquired through serving notable multinational companies,

leadership
positions,
audit
committee
contributions
and more.

Director Independence

Board Independence. The Board has adopted categorical standards to guide it in determining director independence. Under these standards, which are part of our Corporate Governance Guidelines and listed below, an independent director must meet the independence requirements in the New York Stock Exchange (NYSE) listing standards, including the requirement that the Board must have affirmatively determined that the director has no material relationships with the Company, either directly or as a partner, stockholder, or officer of an organization that has a relationship with the Company.

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a. A director will not be independent if (i) the director is, or was within the preceding three years, employed by the Company; (ii) an immediate family member of the director is, or was within the preceding three years, employed by the Company as an executive officer (as such term is defined by the NYSE) other than on an interim basis; (iii) the director or any immediate family member has received from the Company, during any 12 consecutive months within the preceding three years, more than $120,000 in direct compensation from the Company, other than compensation received by an immediate family member of a director for service as a non-executive employee of the Company and director and committee fees and deferred compensation for prior service, provided, that such deferred compensation is not contingent on continued service; (iv) the director is employed by the Company s independent auditor; (v) an immediate family member of the director is employed by the Company s independent auditor (I) as a partner or (II) otherwise as an employee who personally works on the Company s audit; (III) the director or an immediate family member was within the last three years a partner or employee of the Company s independent auditor and personally worked on the Company s audit within that time; or (IV) a Company executive officer is, or was within the preceding three years, on the board of directors of a company which, at the same time, employed the Company director or an immediate family member of the director as an executive officer.

b. The following commercial and charitable relationships will not be considered material relationships that would impair a director s independence: (i) if a Company director is an employee, or an immediate family member is an executive officer, of another company that does business with the Company and, within any of the last three fiscal years, the annual sales to, or purchases from, the Company are less than 1% of the annual revenues of the other company; (ii) if a Company director is an employee, or an immediate family member is an executive officer, of another company that is indebted to the Company, or to which the Company is indebted, and the total amount of either company s indebtedness to the other is less than 1% of the total consolidated assets of the other company; and (iii) if a Company director serves as an officer, director or trustee of a charitable organization, and the Company s discretionary charitable contributions to the organization are less than 1% of such organization s total annual charitable receipts, provided, that the amount of the Company s contributions shall not include the matching of charitable contributions by Barnes Group Foundation, Inc. pursuant to the Matching Gifts Program.

c. For relationships not covered by b. above, the directors who are independent under the Corporate Governance Guidelines in a. and b. above will determine whether the relationship is material and, therefore, whether the director is independent. The Company will explain in the next proxy statement the basis of any Board determination that a relationship was immaterial despite the fact that it did not meet the categorical standards of immateriality in b. above.

The Board has determined that other than Messrs. T. Barnes, Dempsey and Männer, all of our director nominees are independent under the listing standards of the NYSE and the above categorical standards. Mr. T. Barnes is a former employee that was employed by the Company within the past three years; Mr. Dempsey is a current employee of the Company; and Mr. Männer is a former consultant that was retained by the Company within the last three years.

Committee Independence. All members of the Audit Committee, Compensation and Corporate Governance Committee are independent within the meaning of the NYSE listing standards and the above categorical standards, and all members of both the Audit Committee and the Compensation Committee meet the additional independence requirements of the NYSE listing standards that are applicable to members of such committees.

Board Leadership

The Board recognizes that one of its key responsibilities is to evaluate and determine its optimal leadership structure so as to provide independent oversight of management and a highly engaged and high-functioning Board. The Company s Corporate Governance Guidelines provide the Board with flexibility to select the appropriate leadership structure for the Company. In making leadership structure determinations, the Board considers many factors including the specific needs of the business and what is in the best interests of the Company s stockholders. Our Board has determined that if the Chairman is not an independent director, then there should be a Lead Independent Director elected by our independent directors. Currently, Mr. T. Barnes serves as Chairman of the Board and Mr. McClellan serves as Lead Independent Director.

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The Board believes that the current structure is appropriate for the Company and provides for effective independent Board leadership and engagement. Our Chairman, although deemed not to be independent, has never been our chief executive officer and his prior employment as a non-executive, full-time employee was complementary to his regular duties as Chairman. Nonetheless, because a strong, independent oversight function is a critical aspect of effective corporate governance, our Corporate Governance Guidelines require that the independent directors annually elect an independent director to serve as Lead Independent Director if the Chairman is not an independent director. This oversight function is enhanced by the fact that the Board s Audit, Compensation and Corporate Governance Committees are comprised entirely of independent directors. Further, the Company s non-management directors meet in regularly scheduled executive sessions, and the independent directors also periodically meet in executive sessions.

Board Role In Risk Oversight

While risk management is the responsibility of the Company s management team, the Board is responsible for oversight of the Company s risk management activities. The Audit Committee has been designated by the Board to take the lead in overseeing risk management at the Board level. By its charter, the Audit Committee is required to discuss policies and guidelines that govern the risk assessment and risk management process, including assigning responsibility with respect to particular risks to other committees of the Board, and that it meet periodically with management to review and assess the Company s major financial risk exposures and the manner in which they are being monitored and controlled. Accordingly, the Audit Committee reviews risk assessment and risk management, including in the areas of legal compliance, internal audit and financial controls, litigation, and environmental, health and safety. In doing so, the Audit Committee considers the nature of the material risks the Company faces and the adequacy of the Company s policies and procedures designed to respond to and mitigate these risks, and receives reports from management and other advisors, including periodic risk assessments by the Company s Internal Audit department.

Although the Board s primary risk oversight has been assigned to the Audit Committee, the full Board also periodically receives information about the Company s risk management and the most significant risks that the Company faces. This is accomplished through attendance at Audit Committee meetings by the other Board members when warranted and by addressing significant risks with the full Board at Board meetings or in executive sessions as appropriate.

Additionally, as described in Risk Oversight and Assessment Policies and Practices on page 34, the Compensation Committee oversees our compensation programs so that they are designed with the appropriate balance of risk and reward in relation to the Company s overall business strategy and are not reasonably likely to have a material adverse effect on the Company.

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Process For Selecting Directors; Stockholder Recommended Director Candidates

Nominees for Director shall be selected on the basis of their qualifications, such as:

Character, wisdom, judgment and integrity;

Experience in positions with a high degree of responsibility;

Prominence and accomplishments in areas relevant to the Company s business activities;

Understanding of the Company s business environment;

Strategy-development, experience in technology-laden industrial businesses, and/or other relevant firms;

Capacity and desire to represent the interests of the Company s stockholders as a whole;

Commitment to maximize stockholder value;

The extent to which the interplay of the nominee s skills, knowledge, expertise and diversity of background with that of the other Board members will help build a Board that is effective in collectively meeting the Company's strategic needs and serving the long-term interests of the Company and its stockholders; and

Ability to devote sufficient time to the affairs of the Company.

Under the Process and Procedure for Identifying Director Candidates adopted by the Corporate Governance Committee (Director Candidates Process), the Corporate Governance Committee considers how a candidate represents, in combination with the other directors, a diversity of viewpoints, backgrounds, experiences and other demographics.

The Corporate Governance Committee will, as stated in the Director Candidates Process, consider director candidates recommended by stockholders of the Company, directors, officers and third-party search firms. When utilizing a third-party search firm, the search firm is instructed to identify candidates based on criteria specified by the Corporate Governance Committee, perform initial screenings of the candidates resumes, and conduct initial interviews.

The Corporate Governance Committee evaluates stockholder-recommended candidates in the same manner as all other candidates. Any stockholder wishing to submit a recommendation should do so in writing addressed to:

Stockholder recommendations must comply with the information requirements of the notice provisions contained in the Company s Bylaws in order to be considered. Letters recommending a director candidate must include, among other things, the stockholder s name, address, and stock ownership information (if the stockholder is not the registered holder of shares, a written statement from the record holder of shares (e.g., a broker or bank) verifying the stockholder s beneficial ownership must be provided); the stockholder s opinion as to whether the recommended candidate meets the definition of independent under the Company s Corporate Governance Guidelines and is financially literate as contemplated by the NYSE rules; a description of all agreements, arrangements and understandings between the nominee and any other person regarding the nomination by such stockholder, and any direct or indirect interest of such stockholder in any contract with the Company, any affiliate of the Company or any principal competitor of the Company; and the other disclosure requirements set forth in Section 7 of Article II of the Bylaws. The recommendation letter must also include similar information regarding the director candidate and other information, if any, that would be required to be disclosed with regard to a nominee for director in the solicitation of proxies for election of directors under federal securities laws, and the stockholder must include a completed questionnaire, representation and agreement signed by the candidate (which are provided by the Secretary of the Company upon written request). Stockholder nominations must also comply with the deadlines for submitting director nominations set forth in the Company s Bylaws. A summary of these procedures is set forth below under the caption Stockholder Proposals for 2018 Annual Meeting on page 55.

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Communication With The Board

We have posted our Policy Regarding Reporting of Complaints and Concerns on our website. The policy provides that stockholders and other interested parties may communicate with the Board, a committee of the Board, the independent directors or with an individual director, by any of the following methods:

https://www.compliance-helpline.com/welcomepagebarnesgroup.jsp

Barnes Group Corporate Compliance Alertline
P.O. Box PMB 3667

All complaints and concerns reported by the above methods will be received by a third-party provider, who will forward each complaint or concern to the Office of the General Counsel which is responsible for relaying communications for the Board to them. The Audit Committee Chair receives regular summary reports of all complaints and concerns reported.

Board of Directors And Committees

DIRECTOR ATTENDANCE

Directors are expected to attend our annual meeting of stockholders and all Board meetings and meetings of the committees on which they serve. Our Board held six regular meetings and two special meetings during 2016. Overall attendance at Board and committee meetings during 2016 was 99% for our current directors. All directors attended the 2016 annual meeting.

BOARD SIZE AND ELECTION

Our Corporate Governance Guidelines also provide that the Board should generally have no fewer than six and no more than twelve directors. The Board currently has ten directors. Following the 2017 Annual Meeting, there are expected to be eleven directors. No director may stand for reelection at or after the annual meeting of stockholders following his or her 72^{nd} birthday. Each director is also required to advise the Chairman of the Board of any change in his or her status, including a change in employment or service on other boards of directors, or retirement from his or her principal occupation or another board of directors. Mr. T. Barnes, Chairman of the Board, is designated to preside at executive sessions of non-management directors. Mr. McClellan, the Lead Independent Director, is designated to preside at executive sessions of the independent directors.

BOARD COMMITTEES

We have a standing Audit Committee, Compensation Committee and Corporate Governance Committee. The primary responsibilities for each of these committees are summarized below. The charter for each of these committees is available on the Company s website, *www.BGInc.com*.

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AUDIT COMMITTEE

The Audit Committee is responsible for overseeing accounting policies and practices, financial reporting and the internal controls structure. The Audit Committee also has responsibility for overseeing legal and regulatory compliance and our independent auditor s qualifications, performance and independence, and for risk oversight of the Company generally. The Board has determined that Mr. Morgan, who qualifies as an independent director under the NYSE listing standards and the Company s Corporate Governance Guidelines, is an audit committee financial expert as defined by the Securities and Exchange Commission (SEC). For additional information about the Audit Committee s oversight of the risks faced by the Company, see Board Role in Risk Oversight on page 8 and the Audit Committee Report on page 51.

Meetings in 2016: 8

Committee Members:

William J. Morgan, Chair
Elijah K. Barnes
Thomas J. Hook
Hassell H. McClellan

COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE

The Compensation Committee acts on behalf of the Board to establish the compensation of executive and other key officers and provides oversight of the Company s compensation philosophy and of compensation policies and practices as they relate to risk management. The Compensation Committee also acts as the oversight committee with respect to the Performance-Linked Bonus Plan, the 2014 Barnes Group Inc. Stock and Incentive Award Plan (the Stock and Incentive Award Plan), and other arrangements covering executive officers and other senior management. The Compensation Committee s processes for establishing and overseeing executive compensation can be found in the Compensation Discussion and Analysis section below. In overseeing those plans and programs, the Compensation Committee may delegate authority for day-to-day administration and interpretation of the plans, including selection of participants, determination of award levels within plan parameters, and approval of award documents, to officers of the Company or the Company s Benefits Committee. However, the Compensation Committee may not delegate any authority under those plans for matters affecting the compensation and benefits of the executive officers.

The Compensation Committee also oversees succession planning programs, including plans for the Chief Executive Officer and key officers, and reports to the Board at least annually regarding the strengths and weaknesses of the Company s processes for management development and succession planning. Compensation Committee agendas are established in consultation with the Compensation Committee Chair and its independent compensation consultant. The Compensation Committee has sole authority to retain outside advisors to assist in evaluating executive officer compensation, and approve the terms of engagement including the fees of such advisors. The Compensation Committee typically meets in executive session without management present during each meeting.

Meetings in 2016: 4

Committee Members:

Mylle H. Mangum, Chair
Gary G. Benanav
JoAnna L. Sohovich

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee makes recommendations concerning Board membership, functions and compensation and the Company s overall corporate governance policies and practices. The Corporate Governance Committee serves as the nominating committee for the Board. The process by which the Corporate Governance Committee considers nominees to the Board is described in Process for Selecting Directors; Stockholder Recommended Director Candidates on page 9. Additional responsibilities include board succession matters, the annual performance review of the Chairman of the Board, reviewing matters relating to potential director conflicts of interest, overseeing the Company s practices related to political activities, and administering the Company s related person transactions policy.

Meetings in 2016: 3

Committee Members:

Hassell H. McClellan, Chair
Gary G. Benanav
William J. Morgan

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Governance Update

Proposal 2 Ratify The Company s Bylaw Amendment Allowing Proxy Access

Effective July 28, 2016, the Board of Directors implemented a proxy access bylaw. Article I, Section 7(e) of the Company s Amended and Restated Bylaws (Bylaws) permits a stockholder, or a group of up to 20 stockholders, owning 3% or more of the Company s outstanding common stock continuously for at least three years, to nominate and include in the Company s proxy materials director nominees constituting up to 20% of the total number of directors then serving on the Board, provided that the stockholder(s) and the nominee(s) satisfy the requirements specified in Article 7 of the Company s Bylaws.

Proxy access increases stockholders opportunity to engage with and influence the Company. The Board was proactive in adopting proxy access for the benefit of stockholders and now seeks stockholder ratification of this proxy access bylaw amendment.

If our stockholders do not ratify the amendment, the Board will amend the Company s Bylaws to remove the proxy access provision.

DIRECTOR COMPENSATION IN 2016

The Corporate Governance Committee reviews and makes recommendations to the Board regarding the form and amount of compensation for non-employee directors. As part of its review, the Corporate Governance Committee periodically obtains competitive market data. The Company s director compensation program is designed to attract and retain highly qualified directors and to reward the time, effort, expertise and accountability required of active Board membership. In general, the Corporate Governance Committee and the Board believe that annual compensation for non-employee directors should consist of both a cash component, designed to compensate members for their service on the Board and its committees, and an equity component, designed to align the interests of directors and stockholders and, by vesting over time, to create an incentive for continued service on the Board.

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DIRECTOR COMPENSATION

The following table describes the components of our non-employee director compensation program for 2016:

Compensation Element	Description	
Cash Retainer	$87,500	
Annual Equity Retainer [1]	RSUs valued at approximately $87,500 that vest quarterly granted to Board members in February Accelerated vesting in the event of a change in control, service terminates as a result of death or disability, or retirement after attaining age 72 Dividend equivalents equal to the dividend per share are paid on each unvested RSU on each dividend payment date	
Annual Chair Retainer [1]	Chairman of the Board	$100,000
	Audit Committee	$17,500
	Compensation Committee	$15,000
	Corporate Governance Committee	$10,000
Other Fees	Eligible to earn a $1,500 fee for: Serving on or chairing ad hoc or special committees of the Board Participating in specific Board projects, such as attending meetings with the Company s senior management and interviewing prospective director or senior officer candidates	
Other Benefits	Business travel accident insurance Matching charitable gifts under the Barnes Group Foundation, Inc., the Company s charitable foundation Life insurance and accidental death and dismemberment insurance (only for directors who joined before January 1, 2012)	
New Director Award (one-time grant)	RSUs equal to a pro rata portion of the annual equity retainer vesting over the remainder of the service year Dividend equivalents equal to the dividend per share are paid on each unvested RSU on each dividend payment date	
Non-Management Director Stock Ownership Requirements	Ownership of five times the annual cash retainer Each of our non-management directors met this requirement as of January 1, 2016, with the exception of our newest directors, Thomas J. Hook and JoAnna L. Sohovich, who joined the Board in May 2016 and May 2014, respectively	

1. All annual retainers are paid quarterly.

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Deferred Compensation

Under the Non-Employee Director Deferred Stock Plan each non-employee director who joined the Board before December 15, 2005 was granted the right to receive 12,000 shares of Common Stock when his or her membership on the Board terminates or, if sooner, when a change in control occurs. The plan also provides for the payment of dividend equivalents equal to one dividend per share for each dividend payment date payable quarterly and in cash.

Under the Directors Deferred Compensation Plan each non-employee director may defer all or a portion of his or her Board retainer and meeting fees, and/or the dividend equivalents paid under this plan. Directors may elect to credit such deferred compensation to a cash account, a phantom stock account, or a combination of the two.

Non-Management Director Stock Ownership Requirements

As reflected above, under our stock ownership requirements, each of our non-management directors is required to accumulate an ownership position in Company Common Stock equal in value to five times the annual cash retainer. Two-thirds of the value of unvested RSUs and all of the shares payable under the Non-Employee Director Deferred Stock Plan count toward achieving ownership requirements. Directors are required to retain all net after-tax proceeds from Company equity grants until ownership levels are met. Once ownership levels are met, the requirement is converted to a fixed number of shares, subject to increases based on increases in the annual cash retainer.

Director Compensation Table

The following table sets forth the aggregate amounts of compensation information for the year ended December 31, 2016 for non-management directors.

Name of Director	Fees Earned or Paid in Cash	Stock Awards [1]	Changes in Pension Value and Nonqualified Deferred Compensation Earnings [2]	All Other Compensation [3]	Total
Thomas O. Barnes	$187,500	$83,316	$0	$88,206	$359,022
Elijah K. Barnes	61,657	64,892	0	0	126,549
Gary G. Benanav	90,995	83,316	6,823	317	181,451
William S. Bristow, Jr. [4]	30,578	83,316	0	402,480	113,894
Thomas J. Hook	58,657	64,892	0	0	123,549
Francis J. Kramer [5]	62,222	41,673	0	0	103,895
Mylle H. Mangum	102,500	83,316	0	317	186,133
Hans-Peter Männer	19,053	27,859	0	0	46,912
Hassell H. McClellan	94,032	83,316	0	317	177,665
William J. Morgan	105,000	83,316	0	317	188,633
JoAnna L. Sohovich	95,000	83,316	0	0	178,316

1. Stock Awards represent the aggregate grant date fair value of RSUs granted to directors under the Stock and Incentive Award Plan. The amounts differ from the annual retainer amount of $87,500 because the number of RSUs subject to the annual equity retainer is calculated using the average closing price of our Common Stock for the first 15 trading days of 2016. The amount for Messrs. E. Barnes, Hook and Männer reflect partial years based on their date of election or appointment.
2. Mr. Benanav participates in the Barnes Group Inc. Directors Deferred Compensation Plan. Interest is calculated each quarter, on the amount of deferred director fees and dividends, based upon the rate of interest for prime commercial loans on the first business day of each quarter. Any preferential amount would be determined by calculating the difference between the actual interest credited to Mr. Benanav and the interest that would have been earned using 120% of a ten-year Treasury bill rate. During 2016, there was $6,823 of preferential interest earned and the aggregate balance of this deferred compensation at December 31, 2016 was $1,741,751.

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3. The compensation represented by the amounts for 2016 set forth in the All Other Compensation column for the directors is detailed in the following table:

Name of Director	Taxes Paid on All Other Compensation [a]	Life Insurance Premium [b]	Other [c]	Total	
Thomas O. Barnes	$29,178	$59,028	$0	$88,206	
Elijah K. Barnes		(16,036)	(17,884)	(47,995)	(54

Impairment of goodwill		(93,402)		(93,402)	
Share of earnings of Discovery		32,051	33,233	83,569	71,443
Other, net		(1,052)	1,384	3,091	1,280
Earnings (loss) before income taxes	$	(62,718)	33,510	(15,836)	69,632

Information as to the Company s operations in different geographic areas is as follows:

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	amounts in thousands	
Revenue		
United States	$ 373,697	392,562
United Kingdom	98,976	113,537
Other countries	16,560	14,144
	$ 489,233	520,243

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results Of Operations***

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing strategies, integration of acquired businesses, new service offerings, and anticipated sources and uses of capital. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but such statements necessarily involve risks and uncertainties, and there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

general economic and business conditions and industry trends including the timing of, and spending on, feature film and television production;

spending on domestic and foreign television advertising and spending on domestic and foreign first-run and existing content libraries;

the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate;

continued consolidation of the broadband distribution and movie studio industries;

fluctuations in foreign currency exchange rates and political unrest in international markets;

uncertainties inherent in the development and integration of new business lines, acquired businesses and business strategies;

uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies;

changes in distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand and IP television and their impact on television advertising revenue;

rapid technological changes;

future financial performance, including availability, terms and deployment of capital;

the ability of suppliers and vendors to deliver products, equipment, software and services;

the outcome of any pending or threatened litigation;

availability of qualified personnel;

the possibility of an industry-wide strike or other job action by or affecting a major entertainment industry union;

changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;

changes in the nature of key strategic relationships with partners and joint venturers;

competitor responses to our products and services, and the products and services of the entities in which we have interests; and

threatened terrorists attacks and ongoing military action in the Middle East and other parts of the world.

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in its expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying condensed consolidated financial statements and the notes thereto; and our Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005.

Overview

We are a holding company and our businesses and assets include Ascent Media and AccentHealth, which we consolidate, and a 50% ownership interest in Discovery, which we account for using the equity method of accounting. Accordingly, as described below, Discovery s revenue is not reflected in the revenue we report in our consolidated financial statements. In addition to the foregoing assets, immediately prior to the Spin Off, Liberty transferred to a subsidiary of our company $200 million in cash. The Spin Off was effected on July 21, 2005 as a distribution by Liberty to holders of its Series A and Series B common stock of shares of our Series A and Series B common stock, respectively. The Spin Off did not involve the payment of any consideration by the holders of Liberty common stock and is intended to qualify as a tax-free spin off. The Spin Off has been accounted for at historical cost due to the pro rata nature of the distribution.

Following the Spin Off, we and Liberty operate independently, and neither has any stock ownership, beneficial or otherwise, in the other.

Ascent Media provides creative, media management and network services to the media and entertainment industries. Ascent Media s clients include major motion picture studios, independent producers, broadcast networks, cable programming networks, advertising agencies and other companies that produce, own and/or distribute entertainment, news, sports, corporate, educational, industrial and advertising content. Ascent Media s operations are organized into the following four groups: Creative Services group, Media Management Services group, Network Services group and Corporate and other. Ascent Media has few long-term or exclusive agreements with its Creative Services and Media Management Services customers.

On August 18, 2006, Ascent Media announced that it intends to streamline its structure into two global operating divisions Creative Services group and Network Services group to better align Ascent Media s organization with the company s strategic goals and to respond to changes within the industry driven by technology and customer requirements. The operations of the current Media Management Services group are to be realigned with the other two groups. The Corporate and other group would remain intact. As part of this restructuring, Ascent Media s Chief Executive Officer, along with other officers, either have left or will be leaving the company. Day-to-day management of Ascent Media is now the responsibility of Ascent Media s Management Committee, which is comprised of certain of Ascent Media s senior management. The review of Ascent Media s operations and resulting realignment of the operating structure is expected to be completed during the fourth quarter of 2006. However, certain restructuring activities have already been undertaken and related charges recorded during the third quarter of 2006.

Our most significant asset is Discovery, in which we do not have a controlling financial interest. Discovery is a global media and entertainment company that provides original and purchased video programming in the U.S. and over 160 other countries. Discovery also develops and sells branded commerce and educational product lines in the United States. We account for our interest in Discovery using the equity method of accounting. Accordingly, our share of the results of operations of Discovery is reflected in our consolidated results as earnings or losses of Discovery. To assist the reader in better understanding and analyzing our business, we have included a separate discussion and analysis of Discovery s results of operations and liquidity below.

Acquisition

Effective January 27, 2006, one of our subsidiaries acquired substantially all of the assets of AccentHealth, LLC s healthcare media business for cash consideration of $46,793,000, subject to potential post-closing adjustments. AccentHealth operates an advertising-supported captive audience television network in doctor office waiting rooms nationwide. For financial reporting purposes, the acquisition is deemed to have occurred on February 1, 2006, and the results of operations of AccentHealth have been included in our consolidated results since the date of acquisition.

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Operating Cash Flow

We evaluate the performance of our operating segments based on financial measures such as revenue and operating cash flow. We define operating cash flow as revenue less cost of services and selling, general and administrative expense (excluding stock and other equity-based compensation). We believe this is an important indicator of the operational strength and performance of our businesses, including their ability to invest in ongoing capital expenditures and service any debt. In addition, this measure allows management to view operating results and perform analytical comparisons and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock and other equity-based compensation, restructuring and other charges and impairment of goodwill which are included in the measurement of operating income pursuant to GAAP. Accordingly, operating cash flow should be considered in addition to, but not as a substitute for, operating income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 11 to the accompanying condensed consolidated financial statements for a reconciliation of operating cash flow to earnings (loss) before income taxes.

Results of Operations

Our consolidated results of operations include general and administrative expenses incurred at the DHC corporate level, 100% of the results of Ascent Media and AccentHealth and our 50% share of earnings of Discovery.

Ascent Media s Creative Services group revenue is primarily generated from fees for video and audio post production, special effects and editorial services for the television, feature film and advertising industries. Generally, these services pertain to the completion of feature films, television programs and advertisements. These projects normally span from a few days to three months or more in length, and fees for these projects typically range from $10,000 to $1,000,000 per project. The Media Management Services group provides owners of film libraries a broad range of restoration, preservation, archiving, professional mastering and duplication services. The scope of media management services vary in duration from one day to several months depending on the nature of the service, and fees typically range from less than $1,000 to $100,000 per project. Additionally, the Media Management Services group includes Ascent Media s digital services group, which is developing new products and services for studios, networks, producers, advertisers and distributors to create, repurpose and distribute digital media. The Network Services group s revenue consists of fees relating to facilities and services necessary to assemble and transport programming for cable and broadcast networks across the world via freight, fiber, satellite and the Internet. AccentHealth is included in the Network Services group broadcast services. Additionally, the group earns revenue by providing systems integration and field support services, technology consulting services, design and implementation of advanced video systems, engineering project management, technical help desk and field service. Approximately 30% of the Network Services group s revenue relates to systems integration and engineering services which are provided on a project basis over terms generally ranging from three to twelve months. Approximately 70% of the Network Services group s revenue relates to broadcast services, satellite operations and fiber services that are earned monthly under long-term contracts ranging generally from one to seven years. Cost of services and operating expenses consists primarily of production wages, facility costs, materials and other direct costs and selling, general and administrative expenses.

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Corporate related items and expenses are reflected in Corporate and other, below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	amounts in thousands			
Segment Revenue				
Creative Services group	$ 74,119	73,215	224,482	225,008
Media Management Services group	27,950	27,730	80,656	87,778
Network Services group	67,807	66,989	184,095	207,457
Corporate and other				
	$ 169,876	167,934	489,233	520,243
Segment Operating Cash Flow				
Creative Services group	$ 10,780	12,483	35,812	40,363
Media Management Services group	(1,099)	1,291	710	9,739
Network Services group	16,046	14,327	36,364	41,101
Corporate and other	(9,791)	(11,198)	(32,785)	(35,663)
	$ 15,936	16,903	40,101	55,540

Revenue. Total revenue increased 1.2% and decreased 6.0% for the three and nine months ended September 30, 2006, respectively, as compared to the corresponding prior year periods. The Creative Services group revenue remained relatively flat for the three and nine months ended September 30, 2006, as compared to corresponding prior year periods. Both periods experienced a small increase in U.S. revenue, driven primarily by a higher number of feature film projects for post production services and strength in commercial services. Conversely, U.K. revenue experienced a decline for both periods, driven by television film services for the three month period, and by both commercial and television film services for the nine month period.

The Media Management Services group revenue increased $220,000 and decreased $7,122,000 for the three and nine months ended September 30, 2006, respectively. The increase for the three month period was primarily a result of higher duplication and library services in the United Kingdom and the favorable changes in foreign currency exchange rates of $401,000, offset by a decline in lab services in the United States. The decrease for the nine month period is due to lower traditional media and DVD services from Ascent Media s major customers, lower lab services and unfavorable changes in foreign currency exchange rates of $408,000, offset by higher library services in the United Kingdom.

The Network Services group revenue increased $818,000 and decreased $23,362,000 for the three and nine months ended September 30, 2006, respectively. The increase for the three month period was due to (i) the impact of the AccentHealth acquisition which contributed $6,197,000, (ii) increased content distribution in the United States and Singapore and (iii) the favorable changes in foreign currency exchange rates of $900,000. These increases were offset by (i) a decline in revenue in the United Kingdom of $3,109,000 primarily due to the termination of certain content distribution contracts and (ii) a decline in systems integration and services revenue of $4,049,000 due to large one-time projects in 2005. The decrease for the nine month period reflects (i) a decline in systems integration and services revenue of $32,595,000 as a result of significant one-time projects in 2005 and (ii) lower revenue in the

United Kingdom of $10,328,000 primarily as a result of termination of content distribution contracts. These decreases were partially offset by higher revenue due to the acquisition of AccentHealth of $14,646,000, as well as increased content distribution activity in the United States and Singapore.

Cost of Services. Cost of services increased $2,180,000 or 2.0% and decreased $17,042,000 or 5.1% for the three and nine months ended September 30, 2006, respectively, as compared to the corresponding prior year periods. The increase for the three month period is primarily attributable to the impact of the AccentHealth acquisition which contributed $1,656,000 for the three month period, combined with an unfavorable change in foreign currency exchange rates of $997,000. The decrease for the nine month period reflects the revenue declines driving lower material costs, offset by the AccentHealth acquisition which contributed $4,389,000 for the nine month period. As a percent of revenue, cost of services was consistent at 65.6% and 65.1% for the three months ended September 30, 2006 and 2005, respectively, and 65.1% and 64.5% for the nine months ended September 30, 2006 and 2005, respectively, as decreases in materials cost were offset by increases in labor cost. Labor costs as a percent of revenue were higher for all groups in 2006 due to revenue mix. In the Creative Services group, the increase is a result of revenue mix towards more labor intensive feature services in 2006. In the Media Management Services group, the projects have become increasingly more integrated, with complex work flows requiring a higher level of production and support labor. In the Network Services group, there is a decrease in material costs due to the revenue mix resulting from lower system integration contracts, offset by higher labor costs.

Selling, General and Administrative. Ascent Media s selling, general and administrative expenses (SG&A) were flat for the three and nine months ended September 30, 2006 as compared to the corresponding prior year periods. For the three month period, lower personnel costs from continued reorganization and integration efforts both in the U.S. and U.K were offset by the acquisition of AccentHealth which added $2,197,000 of SG&A expenses for the quarter, along with unfavorable changes in foreign currency exchange rates of $515,000. For the nine month period, the acquisition of AccentHealth added $4,580,000 of SG&A expenses offset by lower personnel costs and professional fees and favorable changes in foreign currency exchange rates of $501,000. As a percent of revenue, SG&A increased from 24.8% to 26.7% for the nine month period due to the acquisition of AccentHealth and the fixed-cost nature of a large percentage of these expenses.

Corporate and other operating cash flow improved $2,878,000 in 2006 primarily due to lower Ascent Media corporate expenses, partially offset by an increase in DHC corporate, general and administrative expenses which were $6,053,000 and $4,655,000 for the nine months ended September 30, 2006 and 2005, respectively.

Restructuring Charges. During the three months ended September 30, 2006, Ascent Media recorded restructuring charges of $3,963,000 primarily related to severance as part of the ongoing restructuring. These restructuring activities were primarily in the Corporate and other group in the United States and United Kingdom. During the three months ended September 30, 2005, Ascent Media recorded restructuring charges of $296,000 related to reductions in headcount. These restructuring activities were implemented to improve operating efficiencies and effectiveness primarily in the Creative Services group.

Depreciation and Amortization. The decrease in depreciation and amortization expense for the three and nine months ended September 30, 2006 is due to a combination of assets becoming fully depreciated partially offset by capital expenditures and the AccentHealth acquisition.

Stock-Based Compensation. In 2001, Ascent Media granted to certain of its officers and employees stock options (the Ascent Media Options) with exercise prices that were less than the market price of Ascent Media common stock on the date of grant. The Ascent Media Options became exercisable for Liberty shares in connection with Liberty s 2003 acquisition of the Ascent Media outstanding common stock that it did not already own. Prior to January 1, 2006, we amortized the in-the-money value of these options over the 5-year vesting period. Certain Ascent Media employees also hold options and stock appreciation rights granted by companies acquired by Ascent Media in the past several years and exchanged for Liberty options and SARs. Prior to January 1, 2006 we recorded compensation expense for the SARs based on the underlying stock price and vesting of such awards.

Effective January 1, 2006, we adopted Statement No. 123R. Statement No. 123R requires that we amortize the grant date fair value of our stock option and SAR Awards that qualify as equity awards as stock compensation expense over the vesting period of such Awards. Statement No. 123R also requires that we record the liability associated with our liability awards at fair value each reporting period and that the change in fair value be reflected as stock compensation expense in our condensed consolidated statement of operations. Prior to adoption of Statement No. 123R, the amount of expense associated with stock-based compensation was generally based on the vesting of the related stock options and stock appreciation rights and the market price of the underlying common stock. The expense reflected in our condensed consolidated financial statements was based on the market price of the underlying common stock as of the date of the financial statements.

As of September 30, 2006, the total compensation cost related to unvested equity awards was $1.5 million. Such amount will be recognized in our consolidated statements of operations through 2009.

Impairment of Goodwill. On August 18, 2006, Ascent Media announced that it intends to streamline its structure into two global operating divisions Creative Services group and Network Services group to better align Ascent Media s organization with the company s strategic goals and to respond to changes within the industry driven by technology and customer requirements. The operations of the current Media Management Services group would be realigned with the other two groups. Such realignment is expected to be completed in the fourth quarter of 2006.

As technology and customer requirements drive changes in this industry, revenue and operating cash flows have been declining for this group. As a result of the restructuring, and the declining financial performance of the Media Management Services group, including ongoing operating losses, the Media Management Services group was tested for goodwill impairment in the third quarter of 2006, prior to DHC s annual goodwill valuation assessment of the entire company. DHC estimated the fair value of that reporting unit principally by using trading multiples of revenue and operating cash flows of similar companies in the industry. In September 2006, Ascent Media recognized a goodwill impairment loss for the Media Management Services group of $93,402,000, which represents the excess of the carrying value over the implied fair value of such goodwill.

Share of Earnings of Discovery. Our share of earnings of Discovery decreased $1,182,000 or 3.6% and increased $12,126,000 or 17.0% for the three and nine months ended September 30, 2006, respectively, as compared to the corresponding prior year periods. The three month period decrease was due to lower operating income in 2006, mainly due to a significant long-term incentive plan benefit in the prior year, and due to higher interest expense in 2006. The nine month increase is due to higher operating income partially offset by higher interest expense in 2006.

We have provided a more detailed discussion of Discovery s results of operations below.

Income Taxes. For the nine months ended September 30, 2006, we recorded income tax expense of $35,448,000, but had a net loss before taxes of $15,836,000. The net loss resulted from a $93,402,000 goodwill impairment charge recorded in the third quarter of 2006, for which we receive no tax benefit. Our effective tax rate was 68.3% for the nine months ended September 30, 2005. Subsequent to the Spin Off, we assessed our historical weighted average state tax rate and determined to increase such rate. This increase resulted in additional tax expense in the third quarter of 2005 in the amount of $13,507,000. In addition, our income tax expense was higher than the federal income tax rate of 35% due to state and foreign tax expense.

Net Earnings. Our net earnings decreased from $22,041,000 for the nine months ended September 30, 2005 to a net loss of $51,284,000 for the nine months ended September 30, 2006. The 2006 net loss is due to a goodwill impairment loss of $93,402,000, partially offset by the other aforementioned fluctuations in revenue and expenses.

Liquidity and Capital Resources

Our primary sources of funds are cash on hand and cash flows from operating activities. During the nine months ended September 30, 2006, our primary uses of cash were capital expenditures ($51,220,000) and cash paid for acquisitions ($46,793,000). Of the foregoing 2006 capital expenditures, $17,478,000 relates to the buildout of Ascent Media s existing facilities for specific customer contracts. The remainder of Ascent Media s capital expenditures relate to purchases of new equipment and the upgrade of existing facilities and equipment. Ascent Media currently expects to spend an additional $16,000,000 for capital expenditures in 2006, which we expect will be funded with Ascent Media s cash from operations and cash on hand. At September 30, 2006, we have approximately $154 million of corporate cash and short-term investments. We expect that these funds will be sufficient to meet our working capital needs, capital expenditure requirements and other investing activities for the foreseeable future.

We do not have access to the cash Discovery generates from its operations, unless Discovery pays a dividend on its capital stock or otherwise distributes cash to its stockholders. Historically, Discovery has not paid any dividends on its capital stock, and we do not have sufficient voting control to cause Discovery to pay dividends or make other payments or advances to us.

Discovery

We hold a 50% ownership interest in Discovery and account for this investment using the equity method of accounting. Accordingly, in our consolidated financial statements we record our share of Discovery s net income or loss available to common shareholders and reflect this activity in one line item in our consolidated statement of operations as Share of earnings of Discovery. The following financial information of Discovery for the nine months ended September 30, 2006 and 2005 and related discussion is presented to provide the reader with additional analysis of the operating results and financial position of Discovery. Because we do not control the decision-making process or business management practices of Discovery, we rely on Discovery to provide us with financial information prepared in accordance with GAAP that we use in the application of the equity method. The following discussion and analysis of Discovery s operations and financial position has been prepared based on information that we receive from Discovery and represents our views and understanding of its operating performance and financial position based on such information. Discovery is not a separately traded public company, and we do not have the ability to cause Discovery s management to prepare its own management s discussion and analysis for our purposes. Accordingly, we note that the material presented in this section might be different if Discovery s management had prepared it.

The following discussion of Discovery s results of operations is presented on a consolidated basis. In order to provide a better understanding of Discovery s operations, we have also included a summarized presentation of revenue and operating cash flow of Discovery s three operating groups: Discovery networks U.S., or U.S. networks, Discovery networks international, or international networks, and Discovery commerce, education and other.

The U.S. networks is Discovery s largest division, which owns and operates 12 cable and satellite channels and provides distribution and advertising sales services for BBC America and BBC World News. International networks manages a portfolio of channels, led by the Discovery Channel and Animal Planet brands, that are distributed in virtually every pay-television market in the world via an infrastructure that includes major operational centers in London, Singapore, New Delhi and Miami. Discovery commerce, education and other includes Discovery s retail chain store operations and other direct consumer marketing activities, as well as Discovery education, which was formed to manage Discovery s distribution of education content to schools and consumers.

Consolidated Results of Discovery

	Nine Months Ended September 30, 2006	2005
	amounts in thousands	
Revenue:		
Advertising	$ 887,627	875,565
Distribution	1,063,138	879,428
Other	163,779	145,556
Total revenue	2,114,544	1,900,549
Expenses:		
Cost of revenue	(744,063)	(659,861)
Selling, general and administrative (SG&A) expense	(842,575)	(737,843)
Operating cash flow	527,906	502,845
Expenses arising from long-term incentive plans	(10,561)	(18,786)
Depreciation and amortization	(95,051)	(90,579)
Operating income	422,294	393,480
Other income (expense):		
Interest expense, net	(149,806)	(130,212)

Unrealized gains from derivative instruments, net	11,562	16,018
Minority interests in consolidated subsidiaries	3,077	(23,754)
Other	6,622	17,124
Earnings before income taxes	293,749	272,656
Income tax expense	(126,610)	(129,770)
Net earnings	$ 167,139	142,886

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Business Segment Results of Discovery

	Nine Months Ended September 30,	
	2006	2005
	amounts in thousands	
Revenue:		
U.S. networks	$ 1,409,671	1,299,389
International networks	623,148	520,040
Discovery commerce, education and other	81,725	81,120
Total revenue	$ 2,114,544	1,900,549
Operating Cash Flow:		
U.S. networks	$ 545,365	494,583
International networks	92,694	73,062
Discovery commerce, education and other	(110,153)	(64,800)
Total operating cash flow	$ 527,906	502,845

Note: Discovery commerce, education and other includes intercompany eliminations.

Revenue. Discovery s consolidated revenue increased 11% for the nine months ended September 30, 2006, as compared to the corresponding prior year period. Increased revenue was primarily due to a 21% increase in distribution revenue combined with a 13% increase in other revenue during the same period. Other revenue increased primarily due to acquisitions in Discovery s education and travel media businesses. Advertising revenue was relatively consistent as a 2% decline in the U.S. Networks advertising sales was offset by a 15%, or $24,523,000 increase in advertising sales internationally.

Distribution revenue grew 19% at the U.S. networks and 24% at the international networks. The increase in distribution revenue at the U.S. networks is due to a 13% increase in paying subscription units combined with contractual rate increases at most networks. Much of the growth in paying subscription units is occurring at networks that are carried on the digital tier due to the expiration of free viewing periods. Launch amortization at the U.S. networks was relatively consistent during the nine months ended September 30, 2006, increasing from $51,595,000 during the first nine months of 2005 to $52,341,000 in 2006. Increases in distribution revenue at the international networks were driven principally by a 16% increase in paying subscription units helped by growth in paying subscription units in Europe, Latin America and Asia of 23% on a combined basis. Many of Discovery s domestic networks are currently distributed to substantially all of the cable television and direct broadcast satellite homes in the U.S. Accordingly, the rate of growth in U.S. distribution revenue in future periods may be less than historical rates.

Advertising revenue, which includes revenue from paid programming, remained consistent primarily due to a 2% decrease at the U.S. Networks, offset by a 15% increase at the international networks. The increase in international networks advertising revenue was due primarily to higher viewership in Europe and Latin America combined with an increased subscriber base in most markets worldwide. The reduction in advertising revenue at the U.S. networks was due primarily to lower advertising sell-out rates and industry-wide pricing pressure. Paid programming, where Discovery sells blocks of time primarily for infomercials that are aired during the overnight hours on certain networks, represented 6% of total advertising revenue for each of the nine month periods ended September 30, 2006 and 2005.

Included in other revenue is education revenue, which increased 33% or $7,579,000, and commerce revenue, which decreased 5% or $4,087,000.

Cost of Revenue. Cost of revenue increased 13% for the nine months ended September 30, 2006, as compared to the corresponding prior year period. As a percent of revenue, cost of revenue was consistent at 35% for both the nine months ended September 30, 2006 and 2005. The increase over the prior year period primarily resulted from higher programming expense due to continued investment across the U.S. networks combined with increases in Europe associated with the lifestyles initiative.

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SG&A Expenses. SG&A expenses increased 14% for the nine months ended September 30, 2006, as compared to the corresponding prior year period. SG&A expenses were relatively consistent at the U.S. networks and within the commerce group, but increased 18% at the international networks and more than doubled ($39,182,000 increase) at the education group. As a percent of revenue, International SG&A expense was consistent at 43% for both the nine months ended September 30, 2006 and 2005. The expense increase at the international networks was caused by increases in personnel expense resulting from adding headcount as the business expands, particularly in the U.K. and Europe, combined with an increase in marketing expense associated with branding and awareness efforts, particularly in Europe, in association with the lifestyles category initiative. The increase at Discovery education is due to increases in personnel, overhead and marketing expenses to accommodate the growth of the business and drive awareness and demand for the new consumer homework help service, *Cosmeo.*

Expenses Arising from Long-term Incentive Plans. Expenses arising from long-term incentive plans are related to Discovery s unit-based, long-term incentive plan, or LTIP, for its employees who meet certain eligibility criteria. Units are awarded to eligible employees and generally vest at a rate of 25% per year. In August 2005, Discovery discontinued one of its LTIPs and settled all amounts with cash. Discovery established a new LTIP in October 2005 (the 2005 LTIP Plan) for certain eligible employees pursuant to which participants in Discovery s remaining plan could elect to (1) continue in such plan or (2) redeem vested units and convert partially vested units to the 2005 LTIP Plan. Substantially all participants in the remaining plan redeemed their vested units and received partially vested units in the 2005 LTIP Plan. Certain eligible employees were also granted new units in the 2005 LTIP Plan. The value of units in the 2005 LTIP Plan is indexed to the value of DHC Series A common stock, and upon redemption, participants receive a cash payment based on the change in market price of DHC Series A common stock. Under the old plans, upon exercise, participants received a cash payment for the increase in value of the units from the unit value on the date of issuance determined by the year over year change in Discovery s aggregate equity value, using a consistent methodology. The change in unit value of LTIP awards outstanding is recorded as compensation expense over the period outstanding. Compensation expense aggregated $10,561,000 for the nine months ended September 30, 2006 compared to $18,786,000 for the same period in 2005. The decrease is primarily the result of the change in unit value determination for the 2005 LTIP Plan units. If the remaining vested LTIP awards at September 30, 2006 were redeemed, the aggregate cash payments by Discovery would be approximately $9,072,000.

Depreciation and Amortization. The increase in depreciation and amortization for the nine months ended September 30, 2006 is due to an increase in new assets placed in service during 2005, combined with acquisition activity occurring during the first nine months of 2006.

Other Income and Expense

Interest Expense. The increase in interest expense for the nine months September 30, 2006 is primarily due to an increase in interest rates during 2005 and 2006 combined with an increase in the company s average debt balance.

Unrealized Gains from Derivative Instruments, net. Unrealized gains from derivative transactions relate primarily to Discovery s use of derivative instruments to modify its exposure to interest rate fluctuations on its debt. These instrument contracts include a combination of swaps, caps, collars and other structured instruments. As a result of unrealized mark to market adjustments, Discovery recognized $11,562,000 and $16,018,000 in unrealized gains on these instruments during the nine months ended September 30, 2006 and 2005, respectively. The foreign exchange hedging instruments used by Discovery are spot, forward and option contracts. Additionally, Discovery enters into non-designated forward contracts to hedge non-dollar denominated cash flows and foreign currency balances.

Minority Interests in Consolidated Subsidiaries. Minority interest represents increases and decreases in the estimated redemption value of mandatory redeemable interests in subsidiaries which are initially recorded at fair value.

Other. Other income in 2005 relates primarily to the gain on sale of one of Discovery s investments.

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Income Taxes. Discovery s effective tax rate was 43% and 48% for the nine months ended September 30, 2006 and 2005, respectively. Discovery s effective tax rate differed from the federal income tax rate of 35% primarily due to foreign and state taxes.

Liquidity and Capital Resources

Discovery generated $270,606,000 and used $29,103,000 of cash from operations during the nine months ended September 30, 2006 and 2005, respectively. Discovery s cash provided by operations during the nine months ended September 30, 2006 resulted from operating cash flow offset by interest expense of $149,806,000 and working capital fluctuations. Cash used in operations during the nine months ended September 30, 2005 resulted from operating cash flow offset by interest expense of $130,212,000, payments associated with the company s long-term incentive plan in the amount of $265,072,000 and working capital fluctuations.

During the nine months ended September 30, 2006, Discovery spent $40,109,000 on capital expenditures, paid $179,019,000 for business acquisitions net of the cash acquired, and paid $80,000,000 to acquire mandatorily redeemable securities related to minority interests in certain subsidiaries. Subsequent to September 30, 2006, Discovery paid $100,000,000 to acquire mandatorily redeemable securities. During the nine months ended September 30, 2005, Discovery paid $92,874,000 to acquire mandatorily redeemable securities related to minority interests in certain subsidiaries and spent $77,609,000 on capital expenditures.

In addition to cash provided by operations, Discovery funds its activities with proceeds borrowed under various debt facilities, including a term loan, two revolving loan facilities and various senior notes payable. During the nine months ended September 30, 2006 and 2005, net borrowings under debt facilities were $71,909,000 and $217,000,000 respectively. Total commitments of these facilities were $4,059,000,000 at September 30, 2006. Debt outstanding on these facilities aggregated $2,653,800,000 at September 30, 2006, providing excess debt availability of $1,405,200,000. Discovery s ability to borrow the unused capacity is dependent on its continuing compliance with its covenants at the time of, and after giving effect to, a requested borrowing.

All term and revolving loans and senior notes are unsecured. The debt facilities contain covenants that require Discovery to meet certain financial ratios and place restrictions on the payment of dividends, sale of assets, additional borrowings, mergers, and purchases of capital stock, assets and investments. Discovery has indicated it is in compliance with all debt covenants at September 30, 2006.

During 2006, including amounts discussed above, Discovery expects to spend up to $100,000,000 for capital expenditures and $200,000,000 for interest expense. Payments to satisfy LTIP obligations are not expected to be significant in 2006. Discovery believes that its cash flow from operations and borrowings available under its credit facilities will be sufficient to fund its working capital requirements.

Discovery has agreements covering leases of satellite transponders, facilities and equipment. These agreements expire at various dates through 2020. Discovery is obligated to license programming under agreements with content suppliers that expire over various dates. Discovery also has other contractual commitments arising in the ordinary course of business.

In connection with the execution of long-term distribution agreements for certain of its European cable networks, Discovery is committed to pay a distributor a percentage of the increase in the value of these networks, if any. Discovery has recorded a liability for the estimated value of these networks, excluding any value attributed to the potential renewal of the distribution agreements. The effect of such renewal, which is expected during the fourth quarter of 2006, would result in a payment significantly greater than the amount currently accrued.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

Foreign Currency Risk

We continually monitor our economic exposure to changes in foreign exchange rates and may enter into foreign exchange agreements where and when appropriate. Substantially all of our foreign transactions are denominated in foreign currencies, including the liabilities of our foreign subsidiaries. Although our foreign transactions are not generally subject to significant foreign exchange transaction gains or losses, the financial statements of our foreign subsidiaries are translated into United States dollars as part of our consolidated financial reporting. As a result, fluctuations in exchange rates affect our financial position and results of operations.

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Item 4. ***Controls and Procedures***

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer, principal accounting officer and principal financial officer (the Executives), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company s disclosure controls and procedures were effective as of September 30, 2006 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

There has been no change in the Company s internal controls over financial reporting identified in connection with the evaluation described above that occurred during the three months ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.

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DISCOVERY HOLDING COMPANY

PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

For information regarding institution of, or material changes in, material legal proceedings that have been reported this fiscal year, reference is made to Part II, Item 1 of our Quarterly Report on Form 10-Q filed on August 9, 2006, Part II, Item 1 of our Quarterly Report on Form 10-Q filed on May 10, 2006 and Part I, Item 3 of our Annual Report on Form 10-K filed on March 23, 2006.

Item 6. *Exhibits*

(a) *Exhibits*

31.1 Rule 13a-14(a)/15d-14(a) Certification.
31.2 Rule 13a-14(a)/15d-14(a) Certification.
31.3 Rule 13a-14(a)/15d-14(a) Certification.
32 Section 1350 Certification

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SIGNATURES

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 thereunto duly authorized.

	DISCOVERY HOLDING COMPANY
Date: November 13, 2006	By: /s/ Charles Y. Tanabe Charles Y. Tanabe Senior Vice President and General Counsel
Date: November 13, 2006	By: /s/ David J.A. Flowers David J.A. Flowers Senior Vice President and Treasurer (Principal Financial Officer)
Date: November 13, 2006	By: /s/ Christopher W. Shean Christopher W. Shean Senior Vice President and Controller (Principal Accounting Officer)

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EXHIBIT INDEX

Listed below are the exhibits which are filed as a part of this Report (according to the number assigned to them in Item 601 of Regulation S-K):

31.1	Rule 13a-14(a)/15d-14(a) Certification.
31.2	Rule 13a-14(a)/15d-14(a) Certification.
31.3	Rule 13a-14(a)/15d-14(a) Certification.
32	Section 1350 Certification