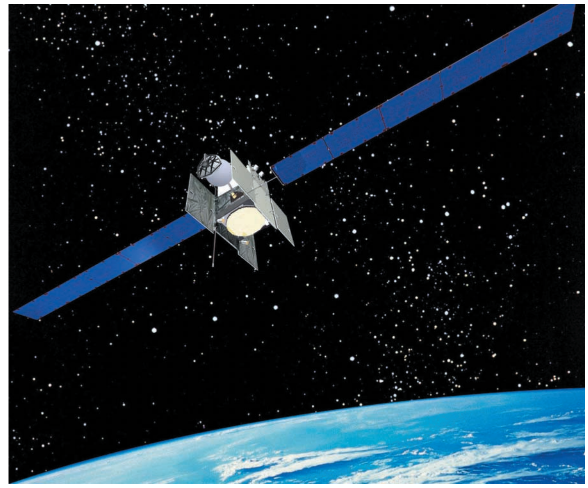

LIBERTY

2008 Annual Report

Clockwise from the top left hand corner

QVC, Inc.
QVC, Inc., one of the largest multimedia retailers in the world, broadcasts live 24 hours a day, 364 days a year. Reaching more than 166 million cable and satellite homes worldwide, QVC is committed to providing its customers with thousands of the most innovative and contemporary beauty, fashion, jewelry and home products. Last year, QVC received more than 100 million phone calls in the United States alone, and shipped 160 million units worldwide. QVC presents more than 1,150 products every week—288 of these products are brand new to the QVC customer. Photo is of QVC's Rocky Mount, N.C., distribution center where a 1-megawatt solar array was installed in 2008. This system produces solar power that results in a 3.1 million pound reduction in carbon emissions—the equivalent of removing 259 cars from the road each year.

DIRECTV
DIRECTV, the nation's #1 satellite television service, presents the finest television experience available to more than 18 million customers in the United States and is leading the HD revolution with more than 130 HD channels—more quality HD channels than any other television provider. Each day, DIRECTV subscribers enjoy access to over 265 channels of 100% digital picture and sound, exclusive programming, industry-leading customer satisfaction (which has surpassed all national cable companies for eight years running) and superior technologies that include advanced DVR and HD-DVR services and the most state-of-the-art interactive sports packages available anywhere.

Provide Commerce
Provide Commerce operates an eCommerce marketplace that offers high-quality perishable products and unique and personalized gifts. The sales through ProFlowers.com continue to be Provide Commerce's most significant source of revenue comprising of 83% of its sales in 2008. In 2008, ProFlowers.com shipped its 25 millionth order and on Valentine's Day celebrated its 10th year in business. Provide Commerce works with a network of suppliers primarily throughout North and South America to consistently deliver fresh, high quality products direct from the supplier to the customer. Photo is of a Tea Rose grown at a flower farm located just outside of Bogota, Colombia.

Starz LLC
Starz LLC is the parent company of Starz Entertainment and Starz Media. Starz Entertainment is a premium movie service provider operating in the United States. It offers 16 movie channels including the flagship Starz® and Encore® brands with approximately 18.1 million and 31.9 million subscribers, respectively. Starz Entertainment airs more than 1,000 movies per month across its pay TV channels. Starz Media is a programming production and distribution company operating worldwide. Its units create animated and live-action programming—including theatrical films—and programming created under contract for other media companies. This photo is of Starz LLC's headquarters located in Englewood, Colorado.

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Certain statements in this Annual Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, product and marketing strategies; new service offerings; our tax sharing arrangement with AT&T Corp. and estimated amounts payable under that arrangement; revenue growth and subscriber trends at QVC, Inc. and Starz Entertainment, LLC; QVC's ability to comply with the covenants contained in its credit facilities; anticipated programming and marketing costs at Starz Entertainment; the recoverability of our goodwill and other long-lived assets; counterparty performance under our derivative arrangements; our expectations regarding Starz Media's results of operations for the next two to three years; our projected sources and uses of cash; the estimated value of our derivative instruments; and the anticipated non-material impact of certain contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. In particular, statements in our ''Letter to Shareholders'' and under ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and ''Quantitative and Qualitative Disclosures About Market Risk'' contain forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- *our ability to complete the proposed split-off of a majority of the assets and liabilities of the Entertainment Group and the proposed, related business combination with DIRECTV;*
- *customer demand for our products and services and our ability to adapt to changes in demand;*
- *competitor responses to our products and services, and the products and services of the entities in which we have interests;*
- *uncertainties inherent in the development and integration of new business lines 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;*
- *our future financial performance, including availability, terms and deployment of capital;*
- *our ability to successfully integrate and recognize anticipated efficiencies and benefits from the businesses we acquire;*
- *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;*
- *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, vendors and joint venturers;*
- *general economic and business conditions and industry trends including the current economic downturn;*
- *consumer spending levels, including the availability and amount of individual consumer debt;*
- *disruption in the production of theatrical films or television programs due to strikes by unions representing writers, directors or actors;*
- *continued consolidation of the broadband distribution and movie studio industries;*
- *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 home shopping networks;*
- *increased digital TV penetration and the impact on channel positioning of our networks;*
- *rapid technological changes;*
- *capital spending for the acquisition and/or development of telecommunications networks and services;*
- *the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate;*
- *threatened terrorist attacks and ongoing military action in the Middle East and other parts of the world; and*
- *fluctuations in foreign currency exchange rates and political unrest in international markets.*

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

This Annual Report includes information concerning public companies in which we have non-controlling interests that file reports and other information with the SEC in accordance with the Securities Exchange Act of 1934. Information contained in this Annual Report concerning those companies has been derived from the reports and other information filed by them with the SEC. If you would like further information about these companies, the reports and other information they file with the SEC can be accessed on the Internet website maintained by the SEC at www.sec.gov. Those reports and other information are not incorporated by reference in this Annual Report.

Dear Fellow Shareholders:

Liberty Media holds a diverse group of telecom, media, and technology (TMT) businesses and investments. Some of these we started, others we purchased, and some we inherited from our former parent, TCI. Our strategy over the last few years has been to create greater transparency and provide investors more choice by spinning out or forming tracking stocks of logically grouped assets. This has allowed some of our former businesses to build concentrated scale, such as Liberty Global and Discovery Communications. We have also tax-efficiently reduced our investment in certain non-consolidated or non-core assets, e.g., News Corp., TWX, On Command, OpenTV, CBS, and IDT Entertainment, and invested in assets that we thought had better growth at attractive valuations and over which we had more control, for example, DIRECTV and SIRIUS XM. We expect to do more of the same in 2009.

When we think about Liberty's skill set, we believe that we:

- Have a shareholder-centric culture – We think like owners and are more focused on long term gains than short term results.
- Are forward-looking – The media industry has been and will be one of the most impacted from the transition to digital. We have been proactive in taking advantage of the benefits and minimizing the risks associated with this transition.
- Empower management – We invest in strong teams, provide strategic input and capital, and work to empower our teams.
- Demonstrate financial expertise – We have experience in mergers, divestitures, investing, capital deployment, and tax-efficient transactions.

Change

Over the past year, Liberty Media continued its rapid pace of change. Notably:

- We issued our third tracking stock, Liberty Entertainment, which tracks our 54% stake in DIRECTV, among other things.
- At Liberty Capital, we shrank the outstanding equity by more than 26%, reduced our exchangeable debt by $1.2 billion, and made a substantial investment in SIRIUS XM.
- At Liberty Interactive, we completed two ''add-on'' acquisitions and extended our debt maturities.
- This month, we agreed to split-off and merge a company holding the majority of Liberty Entertainment with DIRECTV.

The Economic Climate

Like most companies, the performance of some of our operating units was adversely affected by the world economy and debt deleveraging. We focused on the factors under our control: operating efficiencies and balance sheet management. We made significant reductions in fixed costs and capital expenditures at QVC and other operating companies.

Liberty was fortunate to obtain debt financing in more favorable markets as today access to capital is limited and expensive. Our choice to invest in subscription and transaction-based services has proven correct and timely as these businesses have performed better than those exposed to the ad market.

We believe that Liberty as a whole is more than adequately capitalized, and we have taken advantage of the turmoil in the capital markets to repurchase our debt at attractive prices. Additionally, we have substantially reduced counterparty exposure and believe our risk is now minimal. These challenging times have also created opportunities. Liberty has been investing in high-yield issues in the TMT space with success. The most notable of these was our investment in SIRIUS XM. While the increase in the money supply has us concerned about inflation, in general, we have favored debt investments to equity.

Stock Performance

In 2008, like the market in general, our equities faced tremendous pressure with declines of 28% for Liberty Entertainment (since the inception of the tracker in March 2008), 73% for Liberty Capital, and 84% for Liberty Interactive. We underperformed our peer group and the market indices due to liquidity fears and concerns about our complexity. Fortunately, as we took actions to show our financial strength and make the value of our assets clearer, our stocks have rallied since year-end and we have outperformed the market. In 2009, through the writing of this letter, Liberty Capital is up 178%, Liberty Interactive is up 91%, Liberty Entertainment is up 43%, and we are significantly outperforming our peer group and the market.

Liberty Interactive

Liberty Interactive is centered on video and on-line commerce through QVC and our eCommerce companies. QVC is the largest multimedia retailer in the world and offers customers unique, branded, high-quality products at good value. Each hour of programming is themed to address a specific interest that attracts its own distinct demographic profile. Unlike traditional retailers, QVC has the ability to adjust merchandise on a daily basis based on what is selling and what is not. And compared to traditional retailers, its business model yields superior margins and returns on invested capital.

Last year, QVC enhanced its video experience by upgrading its set designs and launching QVC-HD, a high-definition simulcast. Additionally, the company also improved QVC.com by providing live streaming of events such as Fashion Week, presenting a richer video library of products and offering superior online customer support. In 2009, the company is pursuing compelling new national and proprietary brands, more unique items, dynamic and relevant personalities to bring customers fresh product concepts, and large-scale programming events. QVC has identified beauty and consumer electronics as growth opportunities.

For over twenty years, QVC has had a track record of growth. In 2008, QVC's US results were negatively impacted by deteriorating economic conditions, and the international businesses showed mixed results. QVC expects the retail challenges in the US market to continue and further extend into international markets. Management took steps to reduce costs and has maintained a disciplined approach on inventory, promotions and extending credit to customers. In this difficult market, QVC is also focused on reducing returns. To enhance the customer experience, QVC US is expanding its distribution capabilities to ship apparel, jewelry and accessory items ordered in one box, which should additionally reduce shipping and handling costs. The company is also replacing its customer service platform to enable more targeted promotions and services to meet the needs of the customer.

Despite the difficult retail environment, our eCommerce companies grew well and expanded their margins. In 2008 we completed two ''add-on'' acquisitions that were quickly integrated and accretive to our existing businesses. Provide Commerce built on its success of delivering perishable products directly from the supplier to the consumer, and expanded into the gift category through the acquisition of Red Envelope. BUYSEASONS made a complementary acquisition of Celebrate Express, a leading online and catalog provider of party supplies and costumes. Today, no other Internet retailer is able to offer a similar range of costumes and party supplies.

Across Liberty Interactive, we are focused on innovating for our customers, pursuing initiatives that extend best practices, particularly in the Internet space, and driving efficiencies to build competitive advantages. For example, Backcountry.com successfully pioneered an ODAT (one-deal-at-a-time) model that offers customers attractive closeout-priced merchandise in themed categories. Now, across QVC and our eCommerce companies, we are creating ODATs and other online communities that join user-generated content, community and commerce, and offer personalized and proprietary products.

During the year, Liberty Interactive reduced its senior notes and debentures balance by $1.4 billion. Some of these repurchases addressed a 2009 maturity and the rest took advantage of market conditions, retiring debt at a discount. In the fourth quarter, we changed the attribution of $330 million of cash and $551 million of exchangeable debentures to Liberty Interactive from Liberty Entertainment to increase near-term liquidity at Liberty Interactive.

Liberty Entertainment

We were pleased to introduce Liberty Entertainment in March 2008 when we completed our exchange with News Corp. (which has proven to be a highly accretive deal for our shareholders) and reclassified our Liberty Capital common stock. The businesses attributed to the Liberty Entertainment group (including DIRECTV and Starz Entertainment) provide video distribution and programming services.

Over the past year our ownership of DIRECTV increased from 41% to 54% through our additional purchase and their share buybacks, and increased our ownership of GSN and WildBlue. In December we announced our intention to split-off the majority of the assets and liabilities attributed to the Liberty Entertainment group into a new entity to be called Liberty Entertainment, Inc. This new company will be comprised of 549 million shares of DIRECTV, three regional sports networks, 65% of GSN (which owns FUN Technologies), $2 billion in debt, and cash. In May 2009, we announced an agreement to merge Liberty Entertainment, Inc. with DIRECTV. These transactions should provide value to our shareholders by eliminating the discount in the tracking stock structure and allow them to participate directly in the strong performance of DIRECTV. Our aim is to complete the split-off and merger transactions by year-end 2009.

A renamed tracking stock, Liberty Starz, will track the assets and liabilities not being split-off in Liberty Entertainment, Inc. The assets attributed to Liberty Starz will include Starz Entertainment, PicksPal, the fantasy sports business formerly operated by FUN Technologies, our 37% interest in WildBlue, and cash.

Starz Entertainment had strong financial performance in 2008, and expanded its HD channel lineup. Starz now offers five HD channels and three HD on-demand services. Starz introduced Starz Play, its wholesale broadband subscription movie service primarily available through its affiliates. Films from Sony, Disney and our own studio, Overture Films, anchor a strong line-up of movie content, and Starz extended its film output agreement with Sony. In the past year, Starz made major advances in its own programming initiatives, launching three original series: the critically acclaimed *Crash*, *Headcase,* and *Party Down*. In early 2010, Starz will launch the highly anticipated original series: *Spartacus*. Going forward, Starz intends to increase its original programming to differentiate its service and attract audiences.

Liberty Capital

Liberty Capital's strategy is to convert non-strategic assets into operating assets or cash and to grow its businesses both organically and through acquisitions.

Starz Media continued execution of its fully-integrated media strategy of creating original and third party programming for multiple distribution outlets, including Starz Entertainment. Overture Films, in its first full year of operation, released eight movies, with three actors earning Oscar or Golden Globe nominations, and finished 11^{th} among all studios in overall box office receipts. Anchor Bay had good sales of the first Overture releases, but experienced less-than-projected sales of catalogue product in a difficult DVD market. Starz Media is early in its effort to build compelling entertainment product flow and library and we expect additional investment will be required to fund production and marketing costs.

TruePosition continued to generate meaningful cash through the provision of e-911 and other location-based networks and services. The company has redeployed some of this cash in the development and sale of new location-based services and technologies through its subsidiaries, Zoombak, Useful Networks, and EmFinders. The Atlanta Braves struggled on the field but they produced strong financial results.

Our most significant transaction was the March 2009 restructuring of the debt of SIRIUS XM. Liberty agreed to lend SIRIUS up to $530 million in debt and received preferred stock convertible into 40% of the common equity. We liked the risk return profile of this transaction and the opportunity to invest in a compelling consumer service with a familiar media business model. As of this writing, the $400 million that we have invested in SIRIUS' securities has a market value of $1.4 billion.

In 2009, Liberty Capital virtually eliminated all counterparty derivative exposure by borrowing against or closing out these positions, which we felt prudent given market conditions. Some of this cash was used for the early retirement of $750 million face amount of exchangeable debentures at a significant discount to face value. Since March 2008, we also repurchased 26% of outstanding Liberty Capital shares.

We continue to evaluate further opportunities to shrink debt at Liberty Capital.

Looking Ahead

At Liberty Media, our objective is to create long-term shareholder value. Management owns substantial equity and compensation is more closely tied to our stock price than is typical of corporate companies. Increasing our equity value will require different actions at each of our tracking stocks.

At Liberty Interactive, we have good businesses, some of which have been hurt by weak consumer demand. We expect the challenges in the retail market to continue and will keep a keen eye on expense management, inventory and capital needs. We seek to grow our businesses organically and internationally, including the launch of QVC Italy in 2010. We look to buy or create online businesses that offer strong value propositions, attractive financial profiles and complement our existing portfolio. We will also evaluate the capital structure, assessing options to extend upcoming maturities and increase liquidity.

Our objective at Liberty Entertainment is to complete the split-off and merger of Liberty Entertainment, Inc. with DIRECTV. At Liberty Starz, we will evaluate the best way to maximize shareholder value post split-off.

At Liberty Capital, we have capital to invest. We will evaluate market opportunities, investments and operating businesses, particularly where we can consolidate cash flow. Further, we will seek transactions that rationalize non-core holdings tax-efficiently in an effort to simplify assets.

These are uncertain times, however we believe we made progress in 2008 and remain excited about the opportunities ahead of Liberty. We appreciate your ongoing support.

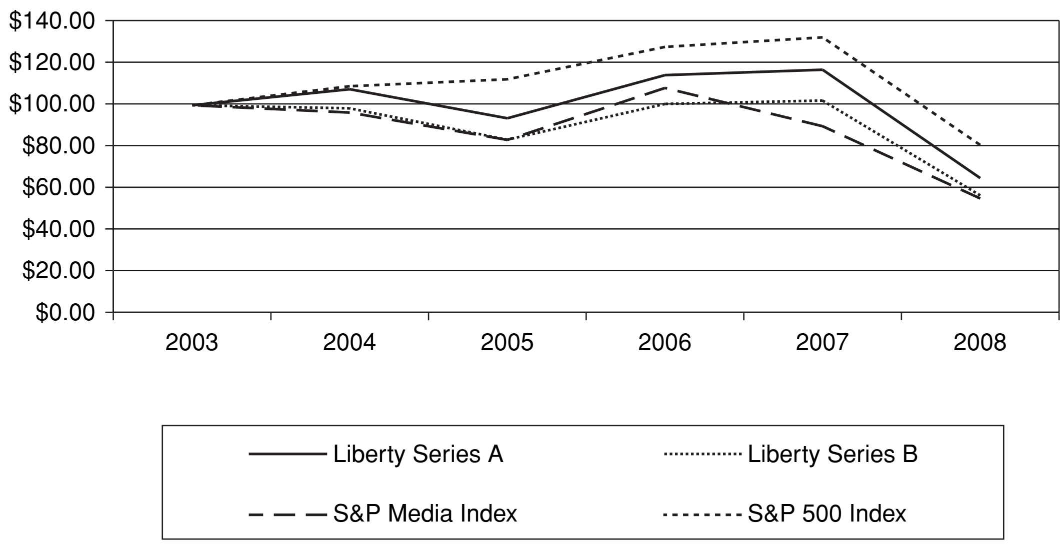
Very truly yours,

Gregory B. Maffei
President and Chief Executive Officer

John C. Malone
Chairman of the Board

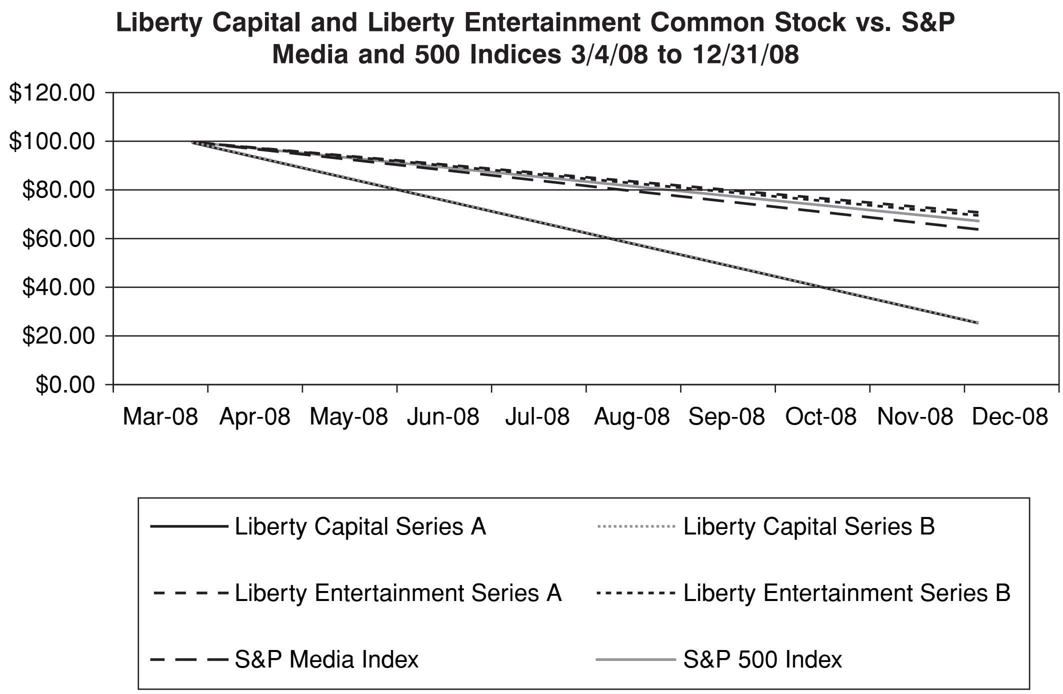
The following graph compares the yearly percentage change in the cumulative total shareholder return on the former Liberty Media Corporation Series A and Series B common stock from December 31, 2003 through December 31, 2008, in comparison to the S&P 500 Media Index, which reflects the performance of companies in our peer group, and the S&P 500 Index. We have included in the returns presented below the spin-off of Liberty Media International, Inc. and the July 2005 spin off of Discovery Holding Company. For periods subsequent to the May 9, 2006 restructuring in which we issued two new tracking stocks—Liberty Capital common stock and Liberty Interactive common stock—and the March 3, 2008 reclassification in which we reclassified a portion of assets and liabilities previously allocated to the Liberty Capital tracking stock to the newly issued Liberty Entertainment tracking stock—we have combined the tracking stock closing market prices based on the ratios used to issue such stocks.

Liberty vs. S&P Media and 500 Indices
12/31/03 to 12/31/08



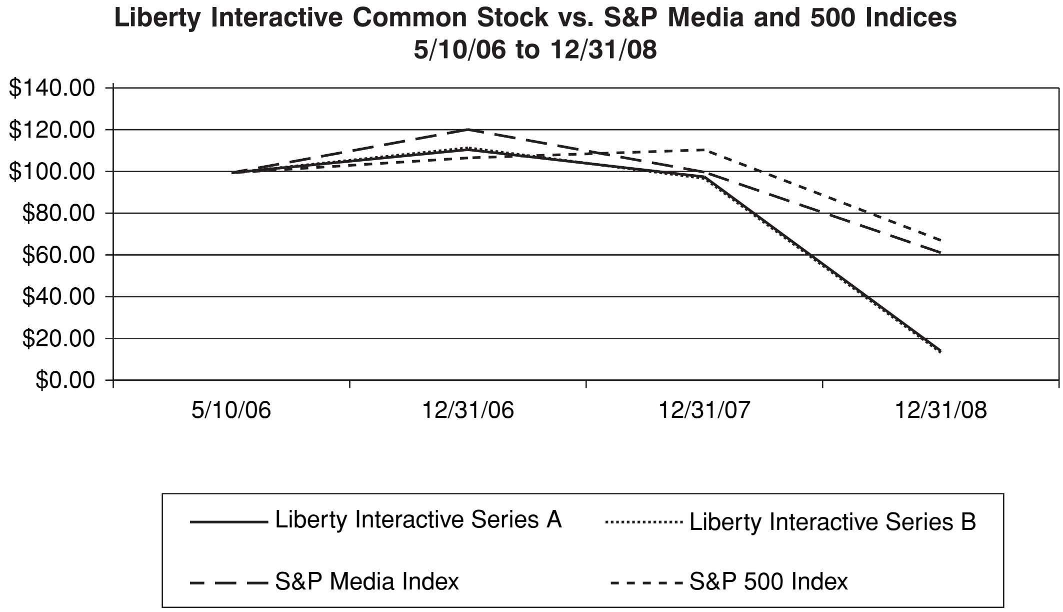
	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Liberty Series A	$100.00	$107.57	$ 93.86	$114.23	$116.77	$65.61
Liberty Series B	$100.00	$ 98.55	$ 83.77	$100.63	$102.21	$57.43
S&P Media Index	$100.00	$ 96.56	$ 83.65	$108.16	$ 90.10	$55.99
S&P 500 Index	$100.00	$108.99	$112.26	$127.55	$132.06	$81.23

The following graph compares the percentage change in the cumulative total shareholder return on each of the Liberty Capital Series A and Series B tracking stocks and the Liberty Entertainment Series A and B tracking stocks from March 4, 2008 through December 31, 2008, in comparison to the S&P Media Index and the S&P 500 Index.



	3/4/08	12/31/08
Liberty Capital Series A	$100.00	$26.98
Liberty Capital Series B	$100.00	$27.03
Liberty Entertainment Series A	$100.00	$71.58
Liberty Entertainment Series B	$100.00	$70.33
S&P Media Index	$100.00	$64.67
S&P 500 Index	$100.00	$68.08

The following graph compares the percentage change in the cumulative total shareholder return on the Liberty Interactive Series A and Series B tracking stocks from May 10, 2006 through December 31, 2008, in comparison to the S&P Media Index and the S&P 500 Index.



	5/10/2006	12/31/2006	12/31/2007	12/31/2008
Liberty Interactive Series A	$100.00	$110.90	$ 98.10	$16.04
Liberty Interactive Series B	$100.00	$111.76	$ 97.34	$15.29
S&P Media Index	$100.00	$120.41	$100.31	$62.33
S&P 500 Index	$100.00	$107.03	$110.81	$68.16

LIBERTY MEDIA CORPORATION
INVESTMENT SUMMARY
(As of April 15, 2009)

Liberty Media Corporation is a holding company that owns interests in a broad range of electronic retailing, media, communications and entertainment businesses. Those interests are attributed to three tracking stock groups: Liberty Capital, Liberty Entertainment, and Liberty Interactive.

The following table sets forth some of Liberty Media's major assets that are held directly and indirectly through partnerships, joint ventures, common stock investments and instruments convertible into common stock. Ownership percentages in the table are approximate and, where applicable, assume conversion to common stock by Liberty Media and, to the extent known by Liberty Media, other holders. In some cases, Liberty Media's interest may be subject to buy/sell procedures, repurchase rights or dilution.

LIBERTY CAPITAL

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
Atlanta National League Baseball Club, Inc.	Owner of the Atlanta Braves, a major league baseball club, as well as certain of the Atlanta Braves' minor league clubs.	100%
Current Group, LLC	Provider of Broadband over Powerline (BPL) solutions and services to electric distribution companies.	8%(1)
Embarq Corporation (NYSE: EQ)	Provider of a suite of communications services to customers in its local services territories, including local and long distance voice, data, high speed internet, wireless and entertainment services.	3%
Hallmark Entertainment Investments Co.	Owner of controlling interest in Crown Media Holdings, Inc., the owner and operator of U.S. cable television channels, including the Hallmark Channel.	11%(2)
Jingle Networks, Inc.	Operator of the advertiser-supported 1.800.FREE411 service which allows callers to obtain residential, business and government telephone numbers for no charge.	9%(3)
Kroenke Arena Company, LLC	Owner of the Pepsi Center, a sports and entertainment facility in Denver, Colorado.	6.5%

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
Leisure Arts, Inc.	Publisher and marketer of needlework, craft, decorating, entertaining and other lifestyle interest ‘‘how-to’’ books.	100%
MacNeil/Lehrer Productions	Producer of ‘‘The NewsHour with Jim Lehrer’’ in addition to documentaries, web sites, interactive DVD’s, civic engagement projects and educational programs.	67%
Mobile Streams	Mobile Streams is a global mobile content retailer that retails a range of wide range of mobile content including full-track downloads, truetones, polyphonic ringtones, videos, graphics and games. Mobile Streams sells its content directly to consumers through its Ringtones.com mobile internet superstore as well as through the content portals operated by many of the world’s largest mobile network carrier groups.	15.8%
Motorola, Inc. (NYSE: MOT)	Provider of integrated communications solutions and embedded electronic solutions.	3%
Overture Films, LLC	Motion picture studio plans to make 8 to 12 feature-length films a year.	100%
priceline.com, Incorporated (NASDAQ: PCLN)	Provider of an e-commerce service allowing consumers to make offers on products and services.	1%
SIRIUS XM (NASDAQ: SIRI)	SIRIUS XM Radio is America’s satellite radio company delivering commercial-free music channels, premier sports, news, talk, entertainment, traffic and weather, to more than 18.9 million subscribers.	40%(4)
Sprint Nextel Corporation (NYSE: S)	Provider of a comprehensive range of communications services bringing mobility to consumer, business and government customers.	3%(5)
Starz Media, LLC (formerly IDT Entertainment)	Creator and distributor of animated and live-action programming, creator of content under contract for other media companies, and leading independent home video/DVD entertainment company.	100%

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
Time Warner Cable Inc. (NYSE: TWC)	TWC is the second-largest cable operator in the U.S. and offers residential and commercial video, high-speed data and voice services over its broadband cable systems.	2%
Time Warner Inc. (NYSE: TWX)	Media and entertainment company whose businesses include filmed entertainment, interactive services, television networks, cable systems, music and publishing.	3%
TruePosition, Inc.	Developer and implementer of advanced wireless location products, services and devices in a cross-carrier environment, including potential for use in connection with social networks, mobile gaming companies, search companies, mobile advertisers and providers of music, comedy and entertainment content to wireless devices.	100%
Viacom Inc. (NYSE: VIA)	Global media company, with positions in broadcast and cable television, radio, outdoor advertising, and online. Brands include CBS, MTV, Nickelodeon, Nick at Nite, VH1, BET, Paramount Pictures, Infinity Broadcasting, Viacom Outdoor, UPN, TV Land, Comedy Central, CMT: Country Music Television, Spike TV, Showtime, Blockbuster, and Simon & Schuster.	1%
WFRV and WJMN Television Station, Inc.	CBS broadcast affiliate that serves Green Bay, Wisconsin and Escanaba, Michigan.	100%
Zoombak LLC	Zoombak LLC develops and markets advanced personal location products and technologies that keep people connected to the people and things that really matter. Zoombak's compact, assisted (A-GPS) locator system employs satellite-enabled GPS and a location network server to keep track of teen and senior drivers, recover stolen vehicles, and find lost pets, among other purposes.	100%

LIBERTY ENTERTAINMENT

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
The DIRECTV Group, Inc. (NASDAQ: DTV)	Provider of digital television entertainment services to more than 16.8 million customers in the United States and over 5.0 million customers in Brazil, Mexico and other countries in Latin America.	54%
Game Show Network, LLC	Operator of GSN, a cable television channel featuring multi-platform interactive game programs, and GSN.com, an internet gaming site.	65%
Liberty Sports Holdings, LLC	Provider of sports oriented programming in Denver, Pittsburgh and Seattle and surrounding areas.	100%
PicksPal, Inc.	Provider of free online games, information and entertainment for sports fans.	100%
Starz Entertainment, LLC	Provider of video programming distributed by cable operators, direct-to-home satellite providers, other distributors and via the Internet throughout the United States.	100%
WildBlue Communications, Inc.	Provider of two-way broadband Internet access via satellite to homes and small businesses in rural markets underserved by terrestrial broadband alternatives.	37%(6)

LIBERTY INTERACTIVE

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
Backcountry.com, Inc.	eCommerce business that sells performance gear for backcountry adventures, including backpacking, climbing, skiing, snowboarding, trail running and adventure travel. Backcountry.com also operates BackcountryOutlet.com, Dogfunk.com, Tramdock.com, SteepandCheap.com and WhiskeyMilitia.com.	81%

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
Bodybuilding.com	eCommerce business that sells supplements, clothing, tanning supplies, accessories and other bodybuilding products as well as hosts an online site where visitors can network and exchange information related to bodybuilding.	83%
Borba, LLC	Provider of full range of nutraceutical and cosmeceutical products.	25%
BUYSEASONS, Inc.	Online retailers of costumes, accessories, seasonal décor and party supplies. BUYSEASONS, Inc. also operates BuyCostumes.com and CelebrateExpress.com.	100%
Expedia, Inc. (NASDAQ: EXPE)	Empowers business and leisure travelers with the tools and information needed to research, plan, book and experience travel. It also provides wholesale travel to offline retail travel agents. Expedia's main companies include: Expedia.com, Hotels.com, Hotwire, Expedia Corporate Travel, TripAdvisor and Classic Vacations. Expedia's companies operate internationally in Canada, the UK, Germany, France, Italy, the Netherlands and China.	24%(7)
GSI Commerce, Inc. (NASDAQ: GSIC)	Provider of outsourced eCommerce solutions.	19.7%
HSN, Inc. (NASDAQ: HSNI)	A retailer and interactive lifestyle network offering and assortment of products through television home shopping programming on HSN television network and HSN.com.	30%
IAC/InteractiveCorp (NASDAQ: IACI)	Operator of businesses in sectors being transformed by the internet, online and offline. Comprised of Ask, Match.com, Chemistry.com, Citysearch, ServiceMagic, CollegeHumor, Evite, Pronto.com, Gifts.com, GirlSense, IAC Advertising Solutions, Life123, RushmoreDrive.com, ShoeBuy.com, The Daily Beast, Very Short List, Vimeo, Webfetti, and Zwinky.	26%(8)
Interval Leisure Group, Inc. (NASDAQ: IILG)	Provider of membership services to the vacation ownership industry.	30%

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
Provide Commerce, Inc.	eCommerce marketplace company providing a collection of branded websites each offering high quality, perishable products shipped directly from the supplier to the consumer and designed specifically around the way consumers shop. Comprised of Cherry Moon Farms, ProFlowers, Secret Spoon Sweets, Sharis Berries, and Red Envelope.	100%
QVC, Inc.	Markets and sells a wide variety of consumer products in the U.S. and several foreign countries, primarily by means of televised shopping programs on the QVC networks and via the Internet through its domestic and international websites.	100%
Ticketmaster (NASDAQ: TKTM)	Ticketmaster is a live ticketing and marketing company.	29%
Tree.com (Lending Tree) (NASDAQ: TREE)	An online lending and real estate business which matches consumers with lenders and loan brokers.	28%

(1) Liberty Media owns interests in Current Group, LLC through two different partnerships, Liberty Associated Partners and Associated Partners.

(2) Liberty Media has an approximate indirect 9% economic ownership in Crown Media Holdings, Inc. (NASDAQ: CRWN) through its investment in Hallmark Entertainment Investments Co.

(3) Liberty Media owns interests in Jingle Networks, Inc. through two different partnerships, Liberty Associated Partners and Associated Partners.

(4) Currently represents approximately 5% voting power. On the satisfaction of certain conditions, Liberty Media has the ability to convert the balance of its holding into a series of stock with full voting power. Upon such conversion, Liberty Media would have 40% voting power.

(5) Less than 1% of voting power. Liberty Media beneficially owns shares of Sprint Nextel common stock and instruments convertible into Sprint Nextel common stock.

(6) In addition to its approximately 37% equity interest in WildBlue, Liberty Media also owns 53% of a first lien credit facility of WildBlue and 50% of a second lien credit facility of WildBlue. This debt is attributed to Liberty Capital.

(7) Liberty Media owns approximately 24% of Expedia common stock representing an approximate 58% voting interest; however, the Chairman and CEO of Expedia currently has the authority to vote these shares.

(8) Liberty Media owns approximately 26% of IAC common stock representing an approximate 60% voting interest; however, the Chairman and CEO of IAC currently has the authority to vote these shares.

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

We have three tracking stocks outstanding as of December 31, 2008. Our Series A and Series B Liberty Interactive tracking stock (LINTA and LINTB) have been outstanding since May 2006. Our Series A and Series B Liberty Capital tracking stock (LCAPA and LCAPB) and our Series A and Series B Liberty Entertainment tracking stock (LMDIA and LMDIB) have been outstanding since March 4, 2008 when each share of our previous Liberty Capital tracking stock was reclassified into one share of the same series of new Liberty Capital and four shares of the same series of Liberty Entertainment. Each series of our common stock trades on the Nasdaq Global Select Market. The following table sets forth the range of high and low sales prices of shares of our common stock for the years ended December 31, 2008 and 2007.

	Liberty Capital			
	Series A (LCAPA)		Series B (LCAPB)	
	High	Low	High	Low
2007				
First quarter	$111.31	96.95	111.50	98.50
Second quarter	$120.74	109.09	120.74	110.88
Third quarter	$126.46	107.70	126.44	108.07
Fourth quarter	$129.72	110.03	129.91	110.51
2008				
First quarter (thru March 3)	$119.75	100.00	121.21	101.25
First quarter (beginning March 4)	$ 19.25	14.60	17.73	14.64
Second quarter	$ 16.99	14.03	18.00	14.07
Third quarter	$ 16.46	13.10	16.23	12.97
Fourth quarter	$ 13.74	2.33	13.75	2.61

	Liberty Interactive			
	Series A (LINTA)		Series B (LINTB)	
	High	Low	High	Low
2007				
First quarter	$ 25.05	20.90	25.74	21.05
Second quarter	$ 25.89	22.15	25.80	22.19
Third quarter	$ 23.07	17.70	23.13	17.69
Fourth quarter	$ 23.00	18.95	21.45	19.03
2008				
First quarter	$ 19.17	13.42	18.69	13.53
Second quarter	$ 17.58	14.55	17.44	14.73
Third quarter	$ 15.17	11.52	15.91	11.95
Fourth quarter	$ 13.10	1.97	12.79	2.10

	Liberty Entertainment			
	Series A (LMDIA)		Series B (LMDIB)	
	High	Low	High	Low
2008				
First quarter (beginning March 4)	$ 27.07	19.65	26.51	20.46
Second quarter	$ 27.48	22.12	27.41	22.46
Third quarter	$ 28.64	22.33	28.95	22.48
Fourth quarter	$ 25.26	9.47	24.95	9.69

Holders

As of January 31, 2009, there were approximately 2,200 and 120 record holders of our Series A and Series B Liberty Capital common stock, respectively, approximately 2,800 and 140 record holders of our Series A and Series B Liberty Interactive common stock, respectively, and approximately 2,200 and 120 record holders of our Series A and Series B Liberty Entertainment common stock, respectively. The foregoing numbers of record holders do not include the number of shareholders whose shares are held of record by banks, brokerage houses or other institutions, but include each such institution as one shareholder.

Dividends

We have not paid any cash dividends on our common stock, and we have no present intention of so doing. Payment of cash dividends, if any, in the future will be determined by our board of directors in light of our earnings, financial condition and other relevant considerations.

Securities Authorized for Issuance Under Equity Compensation Plans

Information required by this item is incorporated by reference to our definitive proxy statement for our 2009 Annual Meeting of shareholders.

Purchases of Equity Securities by the Issuer

	Series A Liberty Capital Common Stock			
Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
October 1-31, 2008	4,592,002	$11.05	4,592,002	$140.3 million
November 1-30, 2008	567,666	$14.68	567,666	$132.0 million
December 1-31, 2008	1,007,137	$ 9.73	1,007,137	$122.2 million
Total	6,166,805		6,166,805	

In connection with the reclassification of Old Liberty Capital Group stock into Entertainment Group stock and Capital Group stock, our board of directors approved a program to repurchase up to $300 million of Liberty Capital common stock. In August 2008, our board of directors approved an additional $300 million of Liberty Capital common stock repurchases. We may alter or terminate the program at any time.

In addition to the shares listed in the table above, 953 shares of Series A Liberty Capital common stock, 2,929 shares of Series A Liberty Interactive common stock and 3,799 shares of Series A Liberty Entertainment common stock were surrendered in the fourth quarter of 2008 by certain of our officers to pay withholding taxes in connection with the vesting of their restricted stock.

Selected Financial Data.

The following tables present selected historical information relating to our financial condition and results of operations for the past five years. The following data should be read in conjunction with our consolidated financial statements.

	December 31,				
	2008	2007	2006	2005	2004
	amounts in millions				
Summary Balance Sheet Data:					
Investments in available-for-sale securities and other cost investments	$ 2,859	17,569	21,622	18,489	21,834
Investment in affiliates	$14,490	1,817	1,842	1,908	784
Assets of discontinued operations	$ —	—	512	516	6,258
Total assets	$41,903	45,649	47,638	41,965	50,181
Long-term debt(1)	$11,359	11,524	8,909	6,370	8,566
Deferred income tax liabilities, noncurrent	$ 4,900	8,458	9,661	8,696	9,657
Stockholders' equity	$19,602	19,586	21,633	19,120	24,586

	Years ended December 31,				
	2008	2007	2006	2005	2004
	amounts in millions, except per share amounts				
Summary Statement of Operations Data:					
Revenue	$10,084	9,423	8,613	7,646	6,743
Operating income (loss)(2)	$ (747)	738	1,021	944	788
Realized and unrealized gains (losses) on financial instruments, net	$ (34)	1,269	(279)	257	(1,284)
Gains (losses) on dispositions, net	$ 3,679	646	607	(361)	1,411
Other than temporary declines in fair value of investments	$ (441)	(33)	(4)	(449)	(129)
Earnings (loss) from continuing operations(2):					
Liberty Capital common stock	$ (524)	—	—	—	—
Liberty Entertainment common stock	(616)	—	—	—	—
Liberty Interactive common stock	(781)	441	486	—	—
Old Liberty Capital common stock	5,402	1,524	33	—	—
Liberty common stock	—	—	190	(43)	105
Inter-group eliminations	(2)	—	—	—	—
	$ 3,479	1,965	709	(43)	105
Basic earnings (loss) from continuing operations per common share(3):					
Series A and Series B Liberty Capital common stock	$ (4.64)	—	—	—	—
Series A and Series B Liberty Entertainment common stock	$ (1.19)	—	—	—	—
Series A and Series B Liberty Interactive common stock	$ (1.31)	.70	.73	—	—
Old Series A and Series B Liberty Capital common stock	$ 41.88	11.55	.24	—	—
Liberty common stock	$ —	—	.07	(.02)	.04
Diluted earnings (loss) from continuing operations per common share(3):					
Series A and Series B Liberty Capital common stock	$ (4.64)	—	—	—	—
Series A and Series B Liberty Entertainment common stock	$ (1.18)	—	—	—	—
Series A and Series B Liberty Interactive common stock	$ (1.31)	.69	.73	—	—
Old Series A and Series B Liberty Capital common stock	$ 41.55	11.46	.24	—	—
Liberty common stock	$ —	—	.07	(.02)	.04

(1) Excludes the call option portion of our exchangeable debentures for periods prior to January 1, 2007. See note 3 to our consolidated financial statements.

(2) Includes $1,569 million of long-lived asset impairment charges in 2008.

(3) Basic and diluted earnings per share have been calculated for Liberty Capital and Liberty Entertainment common stock for the period subsequent to March 3, 2008. Basic and diluted EPS have been calculated for Liberty Interactive common stock for the periods subsequent to May 9, 2006. Basic and diluted EPS have been calculated for Old Liberty Capital for the period from May 9, 2006 to March 3, 2008. EPS has been calculated for Liberty common stock for all periods prior to May 10, 2006.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 consolidated financial statements and the notes thereto.

Overview

We own controlling and non-controlling interests in a broad range of video and on-line commerce, media, communications and entertainment companies. Our more significant operating subsidiaries, which are also our principal reportable segments, are QVC, Inc. and Starz Entertainment, LLC. QVC markets and sells a wide variety of consumer products in the United States and several foreign countries, primarily by means of televised shopping programs on the QVC networks and via the Internet through its domestic and international websites. Starz Entertainment provides premium programming distributed by cable operators, direct-to-home satellite providers, telephone companies, other distributors and the Internet throughout the United States.

Our "Corporate and Other" category includes our other consolidated subsidiaries and corporate expenses. Our other consolidated subsidiaries include Provide Commerce, Inc., Backcountry.com, Inc., Bodybuilding.com, LLC, Starz Media, LLC, FUN Technologies, Inc., Atlanta National League Baseball Club, Inc. ("ANLBC"), Liberty Sports Holdings, LLC ("Liberty Sports Group"), Leisure Arts, Inc., TruePosition, Inc., BuySeasons, Inc. and WFRV and WJMN Television Station, Inc. ("WFRV TV Station"). Provide operates an e-commerce marketplace of websites for perishable goods, including flowers and fruits and desserts, as well as upscale personalized gifts. Backcountry operates eight websites offering outdoor and backcountry sports gear and clothing. Bodybuilding manages two websites related to sports nutrition, body building and fitness. Starz Media is focused on developing, acquiring, producing and distributing live-action, computer-generated and traditional television animated productions for the home video, film, broadcast and direct-to-consumer markets. FUN operates websites that offer casual skill games and fantasy sports services. ANLBC owns the Atlanta Braves, a major league baseball club, as well as certain of the Atlanta Braves' minor league clubs. Liberty Sports Group is comprised of three regional sports television networks—FSN Rocky Mountain, FSN Northwest and FSN Pittsburgh. Leisure Arts publishes and markets needlework, craft, decorating, entertaining and other lifestyle interest "how-to" books. TruePosition provides equipment and technology that deliver location-based services to wireless users. BuySeasons operates BuyCostumes.com and CelebrateExpress.com, online retailers of costumes, accessories, décor and party supplies. WFRV TV Station is a CBS broadcast affiliate that serves Green Bay, Wisconsin and Escanaba, Michigan.

In addition to the foregoing businesses, we hold an approximate 54% ownership interest in The DIRECTV Group, Inc. and a 24% ownership interest in Expedia, Inc., which we account for as equity method investments, and we continue to maintain investments and related financial instruments in public companies such as Time Warner, IAC/InterActiveCorp ("IAC") and Sprint Nextel Corporation, which are accounted for at their respective fair market values and are included in corporate and other.

Tracking Stocks

Prior to March 3, 2008, we had two tracking stocks outstanding, Liberty Interactive common stock and Liberty Capital common stock. On March 3, 2008, we completed a reclassification (the "Reclassification") pursuant to which our Liberty Capital common stock was reclassified into two new tracking stocks, one retaining the designation Liberty Capital common stock and the other designated Liberty Entertainment common stock. The Liberty Entertainment common stock is intended to track and reflect the separate economic performance of a newly designated Entertainment Group, which has attributed to it a portion of the businesses, assets and liabilities that were previously attributed to the Capital Group.

Tracking stock is a type of common stock that the issuing company intends to reflect or "track" the economic performance of a particular business or "group," rather than the economic performance of the company as a whole. While the Interactive Group, the Entertainment Group and the Capital Group have separate collections of businesses, assets and liabilities attributed to them, no group is a separate legal entity and therefore cannot own assets, issue securities or enter into legally binding agreements. Holders of tracking stocks have no direct claim to the group's stock or assets and are not represented by separate boards of directors. Instead, holders of tracking stock are stockholders of the parent corporation, with a single board of directors and subject to all of the risks and liabilities of the parent corporation.

The term "Interactive Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which we have attributed to it. The assets and businesses we have attributed to the Interactive Group are those engaged in video and on-line commerce, and include our subsidiaries QVC, Provide, Backcountry, Bodybuilding and BuySeasons and our interests in Expedia, HSN, Inc., Interval Leisure Group, Inc., Ticketmaster Entertainment, Inc., Tree.com, Inc. and IAC. In addition, we have attributed $2,263 million principal amount (as of December 31, 2008) of our public debt to the Interactive Group. The Interactive Group will also include such other businesses that our board of directors may in the future determine to attribute to the Interactive Group, including such other businesses as we may acquire for the Interactive Group.

Similarly, the term "Entertainment Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which we have attributed to it. The Entertainment Group has attributed to it a portion of the businesses, assets and liabilities that were previously attributed to the Capital Group, including our subsidiaries Starz Entertainment, FUN and Liberty Sports Group, our equity interests in DIRECTV, GSN, LLC and WildBlue Communications, Inc. and approximately $633 million of corporate cash (as of December 31, 2008). In addition, we have attributed an equity collar on 98.75 million shares of DIRECTV common stock and $1,981 million of borrowings against the put value of such equity collar.

During the fourth quarter of 2008, our board of directors approved a plan to redeem a portion of the outstanding shares of our Entertainment Group tracking stock for all of the outstanding shares of a newly formed subsidiary of our company, Liberty Entertainment, Inc. ("LEI"), (the "Redemption"). The Redemption and resulting separation of LEI from our company are referred to as the "Split Off."

If the Redemption is completed, we will redeem 90% of the outstanding shares of each series of Liberty Entertainment common stock for 100% of the outstanding shares of the same series of LEI, with cash in lieu of fractional shares, in each case, as of a date to be determined by our board of directors (the "Redemption Date"). Immediately following the Redemption Date, the holders of Liberty Entertainment common stock will own 100% of the outstanding equity of LEI. At the time of the Split Off, LEI will hold our interests in DIRECTV (and related collars and debt), Liberty Sports Group, FUN, PicksPal and GSN. In addition we will transfer up to $300 million in cash to LEI prior to the Split Off. The Split Off is conditioned on, among other matters, receipt of stockholder approval and receipt of a private letter ruling from the IRS and a tax opinion from tax counsel and is expected to occur in the second quarter of 2009.

Subsequent to the Split Off, our Entertainment Group will be comprised of our interests in Starz Entertainment and WildBlue Communications and cash.

The term "Capital Group" also does not represent a separate legal entity, rather it represents all of our businesses, assets and liabilities which we have attributed to it. Upon implementation of the Reclassification, the Capital Group has attributed to it all of our businesses, assets and liabilities not attributed to the Interactive Group or the Entertainment Group, including our subsidiaries Starz Media, ANLBC, Leisure Arts, TruePosition and WFRV TV Station, and minority equity investments in Time Warner Inc. and Sprint Nextel Corporation. In addition, we have attributed $1,496 million of cash, including subsidiary cash, $104 million of short-term marketable securities and $4,815 million principal amount (as of December 31, 2008) of our exchangeable senior debentures and other parent debt to the Capital Group. The Capital Group will also include such other businesses that our board of directors may in the future determine to attribute to the Capital Group, including such other businesses as we may acquire for the Capital Group.

The Reclassification did not change the businesses, assets and liabilities attributed to our Interactive Group.

See page F-106 for unaudited attributed financial information for our tracking stock groups.

2008 Transactions

On February 27, 2008, we completed a transaction with News Corporation (the "News Corporation Exchange") in which we exchanged all of our 512.6 million shares of News Corporation common stock valued at $10,143 million on the closing date for a subsidiary of News Corporation that held an approximate 41% interest in DIRECTV, three regional sports television networks that now comprise Liberty Sports Group and $463 million in cash. In addition, we incurred $21 million of acquisition costs. We recognized a pre-tax gain of $3,665 million based on the difference between the fair value and the cost basis of the News Corporation shares exchanged.

In April 2008, we entered into an equity collar (the "DIRECTV Collar") for 110 million shares of DIRECTV common stock and a related credit facility (the "Collar Loan") against the present value of the put value of such collar. At the time of closing, we borrowed $1,977 million and used such proceeds to purchase 78.3 million shares of DIRECTV common stock.

2007 Transactions

In addition to the sales of OPTV and AEG discussed under "Discontinued Operations" below, we have several other completed transactions in 2007. Among these are:

On April 16, 2007, we completed an exchange transaction (the "CBS Exchange") with CBS Corporation pursuant to which we exchanged our 7.6 million shares of CBS Class B common stock valued at $239 million for a subsidiary of CBS that held WFRV TV Station and approximately $170 million in cash.

On May 17, 2007, we completed an exchange transaction (the "Time Warner Exchange") with Time Warner Inc. in which we exchanged approximately 68.5 million shares of Time Warner common stock valued at $1,479 million for a subsidiary of Time Warner which held ANLBC, Leisure Arts and $984 million in cash.

On June 22, 2007, we acquired 81.3% of the outstanding capital stock of Backcountry.com, Inc. for cash consideration of $120 million.

On December 31, 2007, we acquired 82.9% of the outstanding equity of Bodybuilding.com, LLC for cash consideration of $116 million.

2006 Transactions

In August 2006, we exchanged our cost investment in IDT Corporation for IDT's subsidiary IDT Entertainment, which is now known as Starz Media. Also in 2006, we acquired controlling interests in Provide, FUN and BuySeasons.

Discontinued Operations

In the fourth quarter of 2006, we committed to two separate transactions pursuant to which we intended to sell our interests in OpenTV Corp and Ascent Entertainment Group ("AEG") to unrelated third parties. The sale of OpenTV for approximately $132 million in cash was completed in January 2007. The sale of AEG, of which the primary asset is 100% of the common stock of On Command Corporation, for $332 million in cash and 2.05 million shares of common stock of the buyer valued at approximately $50 million was completed in April 2007.

OpenTV and AEG each met the criteria of Statement of Financial Accounting Standards No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," for classification as assets held for sale as of December 31, 2006 and were included in the Capital Group.

Our consolidated financial statements and accompanying notes have been prepared to reflect OpenTV and AEG as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of these subsidiaries have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operations, statements of comprehensive earnings (loss) and statements of cash flows and have been reported under the heading of discontinued operations in such consolidated financial statements.

Strategies and Challenges of Business Units

QVC continued to face challenging business and economic conditions in 2008 that adversely impacted its revenue and Adjusted OIBDA. Domestically, revenue and operating cash flow were negatively impacted by general economic conditions. In the fall of 2008, QVC announced the restructuring of its management and support structure, its distribution infrastructure and its customer service operations. Such restructurings resulted in the elimination of certain jobs and the closing of certain facilities. Such steps were taken to improve efficiency and reduce operating costs. In 2009, QVC intends to freshen its product mix and programming to target underserved customer needs, enhance and optimize its website and capitalize on multi-channel and multi-media opportunities and continue to review cost control measures.

QVC-US has identified certain product growth opportunities and will continue to pursue compelling brands, unique items, dynamic and relevant personalities to fuel a constant flow of fresh concepts and large scale programming events. The QVC-US store front, or sets, are being updated to provide a fresh, inviting look and feel to create customer interest as well as improved product demonstration capability. The enhanced website will provide improved product search and guided navigation, a second live counter programming show stream and the ability to create micro-sites. In an effort to reduce returns, QVC is placing additional focus on product quality including apparel fit issues. To enhance the customer experience, QVC-US is expanding its distribution capabilities to ship apparel, jewelry and accessories items ordered in one box which should also reduce shipping and handling costs. QVC is continuing its efforts to reduce inventory levels and to limit extending credit when necessary to reduce bad debt expense.

In 2008, QVC's international businesses showed mixed results as QVC-UK and QVC-Germany continued to face economic and execution challenges, while QVC-Japan showed promising improvement. Results in Germany were hurt by increased competition and a soft retail market, as well as QVC-Germany's over-reliance on certain categories of products. In an effort to reduce returns and increase contribution margins in 2009, QVC-Germany intends to diversify its programming and product mix and increase its focus on underperforming product categories by reducing airtime allocations for apparel and jewelry and increasing the mix of beauty and accessories. QVC-UK's 2008 results were hurt by deteriorating economic conditions, particularly in the fourth quarter. In an effort to reduce the impact of the current economic environment, QVC UK has increased the sales mix, selling times and frequency of the more successful product lines and implemented various cost saving initiatives. QVC-Japan successfully promoted and grew its product categories other than health and beauty in response to the Japanese government's heightened regulatory focus on health and beauty products and continues to adjust to its product lines, value perception and category mix to improve its performance.

The key challenges facing both the U.S. and international markets are (1) macro-economic conditions, (2) maintaining favorable channel positioning as digital TV penetration increases, (3) increased competition from other home shopping and Internet retailers, (4) advancements in technology, such as video on demand and personal video recorders, which may alter TV viewing habits and (5) successful management transition.

In 2008, Starz Entertainment took steps to differentiate itself from other premium subscription video services by launching a branding campaign, investing in, producing and airing original content on its Starz channel, increasing the number of high definition channel offerings and moving from a retail to wholesale model for its Internet products. Starz Entertainment intends to continue these initiatives in 2009. Another objective for Starz Entertainment in 2009 is to negotiate new long-term affiliation agreements with certain of its affiliates whose current agreements will expire this year.

Starz Entertainment faces several key obstacles in its attempt to meet these goals, including: (1) cable operators' promotion of bundled service offerings rather than premium video services; (2) the impact on viewer habits of new technologies such as personal video recorders; (3) continued consolidation in the broadband and satellite distribution industries; (4) an increasing number of alternative movie and programming sources; and (5) loss of subscribers due to economic conditions.

Results of Operations

General. We provide in the tables below information regarding our Consolidated Operating Results and Other Income and Expense, as well as information regarding the contribution to those items from our reportable segments categorized by tracking stock group. The "corporate and other" category for each tracking stock group consists of those assets or businesses which do not qualify as a separate reportable segment. For a more detailed discussion and analysis of the financial results of the principal reporting segments of each tracking stock group, see "Interactive Group", "Entertainment Group" and "Capital Group" below.

Consolidated Operating Results

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Revenue			
Interactive Group			
QVC	$ 7,303	7,397	7,074
Corporate and other	776	405	252
	8,079	7,802	7,326
Entertainment Group			
Starz Entertainment	1,111	1,066	1,033
Corporate and other	280	70	42
	1,391	1,136	1,075
Capital Group			
Starz Media	321	254	86
Corporate and other	296	231	126
	617	485	212
Inter-group eliminations	(3)	—	—
Consolidated Liberty	$10,084	9,423	8,613
Adjusted OIBDA			
Interactive Group			
QVC	$ 1,502	1,652	1,656
Corporate and other	53	32	24
	1,555	1,684	1,680
Entertainment Group			
Starz Entertainment	301	264	186
Corporate and other	23	(9)	(18)
	324	255	168
Capital Group			
Starz Media	(189)	(143)	(24)
Corporate and other	(105)	(67)	(41)
	(294)	(210)	(65)
Inter-group eliminations	(3)	—	—
Consolidated Liberty	$ 1,582	1,729	1,783

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Operating Income (Loss)			
Interactive Group			
QVC	$ 956	1,114	1,130
Corporate and other	(50)	(1)	—
	906	1,113	1,130
Entertainment Group			
Starz Entertainment	(975)	210	163
Corporate and other	(27)	(79)	(151)
	(1,002)	131	12
Capital Group			
Starz Media	(395)	(342)	(29)
Corporate and other	(253)	(164)	(92)
	(648)	(506)	(121)
Inter-group eliminations	(3)	—	—
Consolidated Liberty	$ (747)	738	1,021

Revenue. Our consolidated revenue increased 7.0% in 2008 and 9.4% in 2007, as compared to the corresponding prior year. The 2008 increase is due to a full year of operations for subsidiaries acquired in 2007 ($291 million increase) and 2008 acquisitions ($269 million), as well as increases for Starz Media and Starz Entertainment, partially offset by a decrease for QVC. The 2007 increase is due to a $323 million or 4.6% increase for QVC, our acquisition of Starz Media in August 2006 ($168 million increase), our acquisition of ANLBC in May 2007 ($159 million increase) and the combined impact of our 2006 and 2007 acquisitions of e-commerce businesses ($153 million increase). See Management's Discussion and Analysis for the Interactive Group and the Entertainment Group below for a more complete discussion of QVC's and Starz Entertainment's results of operations.

In November 2006, TruePosition signed an amendment to its existing services contract with AT&T Corp. that requires TruePosition to develop and deliver additional software features. Because TruePosition does not have vendor specific objective evidence related to the value of these additional features, TruePosition is required to defer revenue recognition until all of the features have been delivered. TruePosition currently estimates that these features will be delivered in the third or fourth quarter of 2009. Accordingly, absent any further contractual changes, TruePosition will not recognize any significant revenue under this contract until 2010. TruePosition recognized approximately $105 million of revenue under this contract in 2006 prior to signing the amendment. TruePosition's services contract with its other major customer, T-Mobile, Inc., has a similar provision which prevents TruePosition from recognizing revenue. It should be noted that both AT&T and T-Mobile are paying currently for services they receive and that the aforementioned deferrals have normal gross profit margins included.

Adjusted OIBDA. We define Adjusted OIBDA as revenue less cost of sales, operating expenses and selling, general and administrative ("SG&A") expenses (excluding stock compensation). Our chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock compensation, separately disclosed litigation settlements and impairments of long-lived assets that are included in the measurement of operating income pursuant to generally accepted accounting principles ("GAAP"). Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 21 to the accompanying consolidated financial statements for a reconciliation of Adjusted OIBDA to Earnings From Continuing Operations Before Income Taxes and Minority Interest.

Consolidated Adjusted OIBDA decreased $147 million or 8.5% and $54 million or 3.0% in 2008 and 2007, respectively, as compared to the corresponding prior year. The decrease in 2008 is due primarily to QVC, as increases and decreases for our other subsidiaries largely offset each other. Starz Media's Adjusted OIBDA loss increased in 2008 primarily due to the timing of revenue and expenses associated with films released by Overture Films and Starz Animation in 2008, partially offset by a $53 million decrease in capitalized production cost write-offs. Theatrical print costs and advertising expenses related to the release of a film are recognized at the time the advertisements are run and generally exceed the theatrical revenue earned from the film. In addition, amortization of film production costs begins when revenue recognition begins. Although there can be no assurance, the expectation when films are approved for production or acquisition is that the ultimate revenue to be earned from theatrical release, home video and pay-per-view and premium television distribution, which revenue may be earned over several years, will exceed the costs associated with the film.

In 2007, Adjusted OIBDA losses for Starz Media and TruePosition increased $119 million and $75 million, respectively, compared to 2006. These Adjusted OIBDA losses were partially offset by increases for Starz Entertainment and ANLBC of $78 million and $38 million, respectively. Starz Media's 2007 Adjusted OIBDA loss resulted from (i) the $79 million write-off of capitalized production costs due to the abandonment of certain films and downward adjustments to the revenue projections for certain TV series and other films, (ii) start up costs for Overture Films and (iii) lower than expected revenue for Anchor Bay, its DVD distribution division. We currently expect Starz Media to continue incurring Adjusted OIBDA losses and operating losses for the next two to three years. TruePosition's Adjusted OIBDA loss was due in large part to the deferral of revenue under its AT&T and T-Mobile contracts described above and to losses incurred in connection with new product and service initiatives ($25 million). QVC's Adjusted OIBDA was relatively flat in 2007 and 2006.

Stock-based compensation. Stock-based compensation includes compensation related to (1) options and stock appreciation rights ("SARs") for shares of our common stock that are granted to certain of our officers and employees, (2) phantom stock appreciation rights ("PSARs") granted to officers and employees of certain of our subsidiaries pursuant to private equity plans and (3) amortization of restricted stock grants.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123R (revised 2004), *"Share-Based Payment"* ("Statement 123R"). Statement 123R requires that we amortize the grant date fair value of our stock option awards that qualify as equity awards as stock compensation expense over the vesting period of such awards. Statement 123R also requires that we record our liability awards at fair value each reporting period and that the change in fair value be reflected as stock compensation expense in our consolidated statements of operations.

In connection with our adoption of Statement 123R, we recorded an $89 million transition adjustment loss, net of related income taxes of $31 million, which primarily reflects the fair value of the liability portion of QVC's stock option awards at January 1, 2006. The transition adjustment is reflected in the accompanying consolidated statement of operations as the cumulative effect of accounting change. In addition, we recorded $50 million, $93 million and $67 million of stock compensation expense for the years ended December 31, 2008, 2007, and 2006, respectively. The decrease in stock compensation expense in 2008 relates to our liability awards and Starz Entertainment's PSAR plans and is due to a decrease in our stock prices and Starz Entertainment's equity value. The 2006 stock compensation expense is net of a $24 million credit related to the terminations of QVC's stock option plan as described in note 16 to the accompanying consolidated financial statements. As of December 31, 2008, the total unrecognized compensation cost related to unvested Liberty equity awards was approximately $90 million. Such amount will be recognized in our consolidated statements of operations over a weighted average period of approximately 2.1 years.

Depreciation and amortization. Depreciation and amortization increased in 2008 and 2007 due to our acquisitions and capital expenditures partially offset by a decrease at Starz Entertainment due to certain intangibles becoming fully amortized. As the businesses we acquired in 2007 and 2006 are not capital intensive, we do not expect them to have a significant impact on our depreciation in the future.

Impairment of long-lived assets. In the third quarter of 2008, based on certain triggering events, we evaluated the recoverability of WFRV TV Station's long-lived assets and preliminarily determined that a $34 million impairment charge was needed. Such amount was further adjusted to $59 million in the fourth quarter of 2008.

Additionally, we performed our annual evaluation of the recoverability of our goodwill and other indefinite lived intangible assets pursuant to Statement of Financial Accounting Standards No. 142 ("Statement 142"). Statement 142 requires that the estimated fair value of a reporting unit be compared to its carrying value, including goodwill (the "Step 1 Test"). In our Step 1 Test, we estimated the fair value of each of our reporting units using a combination of discounted cash flows and market-based valuation methodologies. Developing estimates of fair value requires significant judgments, including making assumptions about appropriate discount rates, perpetual growth rates, relevant comparable market multiples and the amount and timing of expected future cash flows. The cash flows employed in our valuation analysis are based on management's best estimates considering current marketplace factors and risks as well as assumptions of growth rates in future years. There is no assurance that actual results in the future will approximate these forecasts. For those reporting units whose estimated fair value exceeded the carrying value, no further testwork was required and no impairment was recorded. For those reporting units whose carrying value exceeded the fair value, a second test was required to measure the impairment loss (the "Step 2 Test"). In the Step 2 Test, the fair value of the reporting unit was allocated to all of the assets and liabilities of the reporting unit with any residual value being allocated to goodwill. The difference between such allocated amount and the carrying value of the goodwill is recorded as an impairment charge. In connection with our analysis, we recorded the following impairment charges (amounts in millions):

Starz Entertainment	$1,239
Starz Media	192
WFRV TV Station	59
Other	79
	$1,569

We believe that the foregoing impairment charges, which also include $29 million of impairments of intangible assets other than goodwill, are due in large part to the current economic crisis and the downward impact it has had on perceptions of future growth prospects and valuation multiples for our reporting units.

While Starz Entertainment has had increasing revenue and Adjusted OIBDA in recent years, it failed the Step 1 Test due to the aforementioned lower future growth expectations and the compression of market multiples. In performing the Step 2 Test, Starz Entertainment allocated a significant portion of its estimated fair value to amortizable intangibles such as affiliation agreements and trade names which have little or no carrying value. The resulting residual goodwill was significantly less than its carrying value. Accordingly, Starz Entertainment recorded an impairment charge. The impairment loss for Starz Media is due primarily to a lowered long-term forecast for its home video distribution reporting unit resulting from the current economic conditions.

We continue to reflect $6,550 million of goodwill in our consolidated balance sheet, of which $5,363 million relates to QVC. While QVC's results of operations have been adversely impacted by the current economic crisis, QVC passed its Step 1 Test, and we believe QVC's long-lived assets, including its goodwill, are recoverable. This determination is based on several factors. In 2003, we acquired substantially all of the remaining interest in QVC that we did not previously own (approximately 57%). In this transaction only the 57% interest in the assets and liabilities acquired were recorded at their then fair market values based on the step acquisition accounting rules applicable at that time. The rest of QVC's basis in the assets and liabilities was reflected at historical cost which was significantly less than fair value. The vast majority of QVC's goodwill balances arose from this step acquisition. As a result, the amount of goodwill reflected at QVC is significantly less than it would have been if 100% of the shares had been acquired in that transaction. Secondly, QVC's Adjusted OIBDA has increased from $1,013 million in 2003 to $1,502 million in 2008 which translates into an 8% cumulative annual growth rate. As a result, even with a decline in Adjusted OIBDA in 2008, the business is significantly larger than it was when the goodwill was initially recorded. Lastly, the nature and structure of QVC's operations as a national electronic retailer without the capital costs of maintaining local physical points of presence like retail stores allows it to retain a significant portion of its Adjusted OIBDA, which contributes to favorable valuation metrics in the discounted cash flow model we principally used in our Step 1 Test. We also considered in our Step 1 Test the significant decline in the equity market capitalization of the Liberty Interactive Group during 2008 and developed a reconciliation of this market capitalization to our estimates of the aggregate fair value for the reporting units attributable to the Interactive Group. The reconciling items were principally ascribed to control premiums associated with our consolidated businesses that would not be reflected in public market trading prices, estimates of discounts that the marketplace might place on tracking stocks and estimates of other discounts the marketplace may have placed on perceived liquidity concerns and tax attributes of the Interactive Group. After considering all of this information, our conclusion is that the fair value of the QVC reporting unit is clearly in excess of its carrying value.

In connection with our 2007 annual evaluation of the recoverability of Starz Media's goodwill, we estimated the fair value of Starz Media's reporting units using a combination of discounted cash flows and market comparisons and concluded that the carrying value of certain reporting units exceeded their respective fair values. Accordingly, we recognized a $182 million impairment charge related to goodwill. During the third quarter of 2007, FUN recognized a $41 million impairment loss related to its sports information segment due to new competitors in the marketplace and the resulting loss of revenue and operating income.

We acquired our interest in FUN in March 2006. Subsequent to our acquisition, the market value of FUN's stock declined significantly due to the performance of certain of FUN's subsidiaries and uncertainty surrounding government legislation of Internet gambling which we believe the market perceived as potentially impacting FUN's skill games business. In connection with our 2006 annual evaluation of the recoverability of FUN's goodwill, we estimated the fair value of FUN using a combination of discounted cash flows and market comparisons. We concluded that the carrying value of FUN's goodwill exceeded its market value and recognized a corresponding impairment charge.

Operating income. We generated a consolidated operating loss of $747 million in 2008 and consolidated operating income of $738 million and $1,021 million in 2007 and 2006, respectively. The operating loss in 2008 is largely due to the impairment charges discussed above. The 2007 decrease in operating income is due primarily to increased operating losses of $313 million for Starz Media and $73 million for TruePosition. These losses were partially offset by improved operating results of $83 million for FUN and $47 million for Starz Entertainment. The improvement in FUN's operating loss from $140 million to $57 million was largely due to a $72 million difference in the 2007 and 2006 impairment charges.

Other Income and Expense

Components of Other Income (Expense) are presented in the table below: The attribution of these items to our tracking stock groups assumes the Reclassification had occurred as of January 1, 2006.

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Interest expense			
Interactive Group	$ (473)	(465)	(417)
Entertainment Group	(74)	(25)	(31)
Capital Group	(172)	(151)	(232)
Consolidated Liberty	$ (719)	(641)	(680)
Dividend and interest income			
Interactive Group	$ 22	44	40
Entertainment Group	16	60	61
Capital Group	136	217	113
Consolidated Liberty	$ 174	321	214
Share of earnings (losses) of affiliates			
Interactive Group	$(1,192)	77	47
Entertainment Group	418	13	14
Capital Group	(64)	(68)	30
Consolidated Liberty	$ (838)	22	91
Realized and unrealized gains (losses) on financial instruments, net			
Interactive Group	$ (240)	(6)	20
Entertainment Group	498	14	(31)
Capital Group	(292)	1,261	(268)
Consolidated Liberty	$ (34)	1,269	(279)
Gains (losses) on dispositions, net			
Interactive Group	$ 2	12	—
Entertainment Group	3,661	(1)	—
Capital Group	16	635	607
Consolidated Liberty	$ 3,679	646	607
Other than temporary declines in fair value of investments			
Interactive Group	$ (440)	—	—
Entertainment Group	—	—	—
Capital Group	(1)	(33)	(4)
Consolidated Liberty	$ (441)	(33)	(4)
Other, net			
Interactive Group	$ 177	1	23
Entertainment Group	(12)	—	(5)
Capital Group	4	(2)	—
Consolidated Liberty	$ 169	(1)	18

Interest expense. Consolidated interest expense increased 12.2% and decreased 5.7% for the years ended December 31, 2008 and 2007, respectively, as compared to the corresponding prior year. Interest expense increased in 2008 primarily due to an increase in borrowings (i) under the QVC credit facilities (Interactive Group), (ii) under the DIRECTV Collar Loan (Entertainment Group) and (iii) against certain derivative positions (Capital Group).

Interest expense for the Interactive Group increased 11.5% in 2007, as compared to 2006, due to increased borrowings which were used to repurchase shares of Liberty Interactive common stock. Interest expense for the Capital Group decreased 34.9% in 2007 primarily due to our adoption of Statement of Financial Accounting Standards No. 155 ("Statement 155") on January 1, 2007. Statement 155 permits fair value remeasurement of hybrid financial instruments that contain an embedded derivative (such as our exchangeable senior debentures) that would otherwise require bifurcation. We previously reported the fair value of the call option feature of our exchangeable senior debentures separate from the long-term debt, and the long-term debt was accreted to its face amount through interest expense. Our 2006 interest expense included $95 million of such accretion.

Dividend and interest income. Interest income decreased in 2008 primarily due to lower invested cash balances and lower interest rates, as well as the elimination of dividends from News Corporation (which aggregated $57 million in 2007) as a result of the News Corporation Exchange. Interest income for the Capital Group increased in 2007 due to higher invested cash balances.

Share of earnings (losses) of affiliates. The following table presents our share of earnings (losses) of affiliates:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Entertainment Group			
DIRECTV	$ 404	—	—
Other	14	13	14
Interactive Group			
Expedia	(726)	68	50
Other	(466)	9	(3)
Capital Group			
Other	(64)	(68)	30
	$(838)	22	91

As previously described, we acquired a 41% ownership interest in DIRECTV upon consummation of the News Corporation Exchange in February 2008. We subsequently purchased additional shares of DIRECTV for approximately $1.98 billion. Such purchase, coupled with DIRECTV's stock repurchases, has increased our ownership percentage to 54% as of December 31, 2008. Due to a voting arrangement with DIRECTV that limits our ability to control DIRECTV, we continue to account for our investment using the equity method. Our share of earnings of DIRECTV for the ten months ended December 31, 2008 includes $224 million of amortization (net of related taxes) of identifiable intangibles included in our excess basis as described in note 8 to the accompanying consolidated financial statements.

Summarized results of operations information for DIRECTV derived from its historical financial statements are as follows:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Revenue	$19,693	17,246	14,755
Costs of revenue	(9,948)	(8,909)	(7,598)
SG&A expenses	(4,730)	(4,167)	(3,766)
Depreciation and amortization	(2,320)	(1,684)	(1,034)
Operating income	2,695	2,486	2,357
Interest expense	(360)	(235)	(246)
Other income, net	44	126	175
Income tax expense	(864)	(943)	(866)
Income from continuing operations	1,515	1,434	1,420
Income from discontinued operations	6	17	—
Net earnings	$ 1,521	1,451	1,420

DIRECTV achieved growth in revenue and operating income in 2008 and 2007 due to a larger subscriber base and higher average revenue per subscriber. These increases were partially offset by higher subscriber acquisition, upgrade and retention costs. For a more detailed discussion of DIRECTV's results of operations, please see their Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission (the "SEC"). We have had no part in the preparation of DIRECTV's filings with the SEC and are not incorporating by reference any such filing in this Annual Report on Form 10-K.

Our share of earnings of Expedia decreased in 2008 due to impairment charges recorded by Expedia in the fourth quarter. In response to the impairment charges taken by Expedia, we wrote off our excess basis in Expedia in the amount of $119 million. Such charge is included in our share of losses of Expedia. Our share of losses for the Interactive Group includes other than temporary impairment charges of $136 million related to Interval, $242 million related to Ticketmaster and $85 million related to HSN. Ticketmaster has announced its intention to merge with LiveNation, Inc. If such merger is completed as currently contemplated, we would own approximately 15% of the combined company and would account for such investment as an available-for-sale security.

Realized and unrealized gains (losses) on financial instruments. Realized and unrealized gains (losses) on financial instruments are comprised of changes in the fair value of the following:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Statement 159 Securities(1)(4)	$(2,887)	—	—
Exchangeable senior debentures(2)(4)	1,509	541	(353)
Equity collars(4)	1,101	527	(59)
Borrowed shares(4)	791	298	(32)
Other derivatives(3)	(548)	(97)	165
	$ (34)	1,269	(279)

(1) See note 3 to the accompanying consolidated financial statements for a discussion of our accounting for Statement 159 Securities.

(2) See note 3 to the accompanying consolidated financial statements for a discussion of our accounting for our exchangeable senior debentures.

(3) Other derivative losses in 2008 include losses of $289 million on debt swap arrangements related to certain of our public debt issuances and losses of $182 million on put options related to our common stock, as well as losses on interest rate swaps and other derivatives.

(4) Changes in fair value in 2008 and 2007 are due to the decline in the equity and debt markets.

Gains (losses) on dispositions. Aggregate gains (losses) from dispositions are comprised of the following.

Transaction	Years ended December 31, 2008	2007	2006
	amounts in millions		
Entertainment Group			
News Corporation Exchange	$3,665	—	—
Other, net	(4)	(1)	—
	3,661	(1)	—
Capital Group			
Time Warner Exchange	—	582	—
CBS Exchange	—	31	—
Sale of investment in Court TV	—	—	303
Sale of investment in Freescale	—	—	256
Other, net	16	22	48
	16	635	607
Interactive Group			
Other, net	2	12	—
	$3,679	646	607

See notes 7 and 8 to the accompanying consolidated financial statements for a discussion of the foregoing transactions.

Other than temporary declines in fair value of investments. During 2008, 2007 and 2006, we determined that certain of our cost investments experienced other than temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based primarily on quoted market prices at the date each adjustment was deemed necessary. These adjustments are reflected as other than temporary declines in fair value of investments in our consolidated statements of operations. Our 2008 other than temporary declines for the Interactive Group relate to our investment in IAC.

Income taxes. In 2008, we have pre-tax income of $1,199 million and an income tax benefit of $2,280 million. Our effective tax rate was 14.0% in 2007 and 26.2% in 2006. The News Corporation Exchange completed in 2008 and the Time Warner Exchange and the CBS Exchange, which were completed in 2007, qualify as IRC Section 355 transactions, and therefore do not trigger federal or state income tax obligations. In addition, upon consummation of those exchange transactions, deferred tax liabilities previously recorded for the difference between our book and tax bases in our News Corporation investment and our Time Warner and CBS Corporation investments in the amount of $1,791 million and $354 million, respectively, were reversed with an offset to income tax benefit.

Our 2006 rate is less than the U.S. federal income tax rate of 35% due, in part, to a deferred tax benefit we recognized when we decided to effect a restructuring transaction which was effective on April 1, 2006, and which enabled us to include TruePosition in our Federal consolidated tax group on a prospective basis. As a result of this decision and considering our overall tax position, we reversed $89 million of valuation allowance recorded against TruePosition's net deferred tax assets into our statement of operations as a deferred tax benefit in 2006. In addition, we recorded deferred tax benefits of $105 million for changes in our estimated foreign tax rate based on our projections of our ability to use foreign tax credits in the future and $25 million for changes in our estimated state tax rate used to calculate our deferred tax liabilities. These benefits were partially offset by current tax expense of $43 million on the gain on sale of Court TV for which we had higher book basis than tax basis and $39 million for impairment of goodwill that is not deductible for tax purposes. In addition, we recorded state ($34 million) and foreign ($20 million) tax expense.

Historically, we have not made significant federal income tax payments due to our ability to use prior year net operating ("NOL") and capital losses carryforwards to offset current year taxable income. However, as a result of our February 2008 settlement with the IRS related to interest deductions on our exchangeable debentures, our NOL carryforwards were eliminated and we had taxable income in 2006 and 2007 on amended tax returns. Consequently, we made federal tax payments of approximately $152 million for the 2007 tax year during the first quarter of 2008. Based on current projections, we expect to remit federal tax payments for the 2008 tax year and beyond. The settlement did not have a material impact on our total tax expense in 2008 as the resulting increase in current tax expense was largely offset by a decrease in deferred tax expense.

Net earnings. Our net earnings were $3,479 million, $2,114 million and $840 million for the years ended December 31, 2008, 2007 and 2006, respectively, and were the result of the above-described fluctuations in our revenue and expenses. In addition, we recognized earnings from discontinued operations of $149 million and $220 million for the years ended December 31, 2007 and 2006, respectively. Included in our 2006 earnings from discontinued operations are tax benefits of $236 million related to our excess outside tax basis in OPTV and AEG over our basis for financial reporting.

Liquidity and Capital Resources

While the Interactive Group, the Entertainment Group and the Capital Group are not separate legal entities and the assets and liabilities attributed to each group remain assets and liabilities of our consolidated company, we manage the liquidity and financial resources of each group separately. Keeping in mind that assets of one group may be used to satisfy liabilities of one of the other groups, the following discussion assumes, consistent with management expectations, that future liquidity needs of each group will be funded by the financial resources attributed to each respective group.

As of December 31, 2008, substantially all of our cash and cash equivalents are invested in U.S. Treasury securities, other government securities or government guaranteed funds. Accordingly, we believe our cash balances are invested in low-risk securities.

The following are potential sources of liquidity for each group to the extent the identified asset or transaction has been attributed to such group: available cash balances, cash generated by the operating activities of our privately-owned subsidiaries (to the extent such cash exceeds the working capital needs of the subsidiaries and is not otherwise restricted), proceeds from asset sales, monetization of our public investment portfolio (including derivatives), debt and equity issuances, and dividend and interest receipts.

Standard & Poor's Ratings Services and Moody's Investors Services have each notified us that upon completion of our proposed Split Off of LEI, they expect to lower their rating on our corporate credit. In the event we need to obtain external debt financing, such downgrades could hurt our ability to obtain financing and could increase the cost of any financing we are able to obtain.

Interactive Group. During the year ended December 31, 2008, the Interactive Group's primary uses of cash were debt repayments ($1,437 million), the purchase of additional shares of IAC ($339 million), capital expenditures ($166 million), tax payments to the Capital Group ($190 million) and the repurchase of outstanding Liberty Interactive common stock ($75 million). Since the issuance of our tracking stocks, our board of directors has authorized a share repurchase program pursuant to which we can repurchase up to $3 billion of outstanding shares of Liberty Interactive common stock in the open market or in privately negotiated transactions, from time to time, subject to market conditions. During the year ended December 31, 2008, we repurchased 4.7 million shares of Liberty Interactive Series A common stock in the open market for aggregate cash consideration of $75 million and settled related put obligations for $8 million. As of December 31, 2008, we have approximately $740 million remaining under our stock repurchase program. We may alter or terminate the stock repurchase program at any time.

In the fourth quarter of 2008, we changed the attribution of $551 million principal amount of our 3.25% Exchangeable Senior Debentures due 2031 from the Entertainment Group to the Interactive Group along with $380 million in cash. Such attribution of debt and cash was intended to be value neutral.

The Interactive Group's uses of cash in 2008 were primarily funded with cash on hand, the cash transfer from the Entertainment Group noted above, cash from operations and borrowings under QVC's credit facilities. As of December 31, 2008, the Interactive Group had a cash balance of $832 million.

The projected uses of Interactive Group cash for 2009 include approximately $330 million for interest payments on QVC debt and parent debt attributed to the Interactive Group, $215 million for capital expenditures, $117 million to repay our public debt that matures in 2009, additional tax payments to the Capital Group and payments to settle outstanding put options on Liberty Interactive Group common stock. In addition, we may make additional repurchases of Liberty Interactive common stock and additional investments in existing or new businesses and attribute such investments to the Interactive Group. However, we do not have any commitments to make new investments at this time.

We expect that the Interactive Group will fund its 2009 cash needs with cash on hand and cash provided by operating activities. As the QVC credit facilities are substantially fully drawn at December 31, 2008, they are no longer a source of liquidity for the Interactive Group.

QVC was in compliance with its debt covenants as of December 31, 2008. While we currently believe QVC will comply with its debt covenants throughout 2009, continued erosion of its revenue and operating cash flow (as defined in its credit facilities) due to adverse economic conditions could cause QVC to violate a debt covenant. In such a case, we believe we have adequate financial resources to cure such a violation including (i) using available cash to pay down QVC's debt, (ii) using the cash flow and/or assets of other subsidiaries attributed to the Interactive Group to borrow funds to pay down QVC's debt or (iii) using cash of one of our other groups to pay down QVC's debt. The transfer of any such cash from another group would be treated as an inter-group interest or an inter-group loan at the discretion of our board of directors.

Entertainment Group. The Entertainment Group's primary sources of cash in 2008 were the cash received in the News Corporation Exchange, $500 million attributed from the Capital Group as part of the Reclassification and proceeds from the DIRECTV Collar Loan described below. As of December 31, 2008, the Entertainment Group had a cash balance of $807 million.

In April 2008, we entered into an equity collar for 110 million shares of DIRECTV common stock and a related credit facility against the present value of the put value of such collar. At the time of closing, we borrowed $1,977 million and used such proceeds to purchase 78.3 million shares of DIRECTV common stock. The Collar Loan is due as the DIRECTV Collar terminates in six tranches from June 2009 through August 2012. Each tranche is repayable during a six-month period based upon a formula that factors in several variables including the market price of DIRECTV common stock. Interest accrues at an effective weighted average interest rate of 3.5% and is due and payable as each tranche matures. Borrowings are collateralized by the puts underlying the Collar Loan and 170 million shares of DIRECTV common stock owned by us.

In November 2008, we chose to unwind 50% of the first tranche of the DIRECTV Collar. The first tranche expires in 2009 and originally had 22.5 million DIRECTV shares underlying it. As part of this transaction, we repaid the portion of the Collar Loan ($228.4 million) associated with the shares that were unwound. Such repayment was funded with (1) proceeds from the collar unwind ($45.5 million), (2) funds borrowed from the remaining capacity of the Collar Loan ($181.1 million) and (3) cash on hand ($1.8 million). As a result of this transaction, the amount of the Collar Loan due in 2009 is approximately $258 million including accrued interest.

The DIRECTV Collar contains a provision that allows the counterparty to terminate a portion of the DIRECTV Collar if the total number of shares of DIRECTV underlying the DIRECTV Collar exceeds 20% of the outstanding public float of DIRECTV common stock. In the event the counterparty chooses to terminate a portion of the DIRECTV Collar, the repayment of the corresponding debt would be accelerated. We expect that we would fund any such required repayment with available cash, proceeds from the sale of DIRECTV shares that we own, or a combination of the foregoing. The counterparty has agreed to waive its right to terminate a portion of the DIRECTV Collar until early May 2009, subject to the condition that the total number of shares underlying the DIRECTV Collar does not exceed 23% of the outstanding public float of DIRECTV common stock. As of December 31, 2008, the total number of shares underlying the DIRECTV Collar did not exceed the 23% limit.

The projected uses of Entertainment Group cash in 2009 include $258 million to repay the first tranche of the Collar Loan, tax payments to the Capital Group and $20 million for capital expenditures. In addition, we may make additional investments in existing or new businesses and attribute such investments to the Entertainment Group. However, we do not have any commitments to make new investments at this time. We expect that we will be able to use a combination of cash on hand and cash from operations to fund Entertainment Group cash needs in 2009.

Our board of directors has authorized a share repurchase program pursuant to which we can repurchase up to $1 billion of outstanding shares of Liberty Entertainment common stock in the open market or in privately negotiated transactions, from time to time, subject to market conditions. We may alter or terminate the stock repurchase program at any time.

If the Split Off is completed as currently contemplated, LEI would become a separate public company, and our Entertainment Group would be comprised of our interests in Starz Entertainment and WildBlue and cash.

Capital Group. During the year ended December 31, 2008, the Capital Group's primary uses of cash were debt repayments ($1,323 million), cash attributed to the Entertainment Group as part of the Reclassification ($500 million), repurchases of Liberty Capital common stock ($462 million), the settlement of financial instruments ($277 million), loans and investments ($232 million) and cash used in operating activities ($90 million).

In connection with the issuance of our tracking stocks in 2006, our board of directors authorized a share repurchase program pursuant to which we could repurchase up to $1 billion of outstanding shares of Liberty Capital common stock in the open market or in privately negotiated transactions, from time to time, subject to market conditions. That amount was subsequently increased to approximately

$2.3 billion. In connection with our issuance of the Liberty Entertainment common stock, our Liberty Capital stock repurchase plan was lowered to $300 million. In August 2008, our board of directors increased the amount of Liberty Capital common stock that may be repurchased to $600 million. We may alter or terminate the program at any time.

The Capital Group's primary sources of liquidity for the year ended December 31, 2008 were borrowings under one of its existing equity collars ($1,425 million of which $800 million was subsequently repaid), tax payments from the Interactive Group and Entertainment Group ($271 million) and available cash on hand.

In April 2007, we borrowed $750 million of bank financing with an interest rate of LIBOR plus an applicable margin. We intend to invest such proceeds in a portfolio of selected debt and mezzanine-level instruments of companies in the telecommunications, media and technology sectors that we believe have favorable risk/return profiles. As of December 31, 2008, we had made investments aggregating $293 million. See note 9 to the accompanying consolidated financial statements for a discussion of the Investment Fund to which this bank facility relates.

From time to time we enter into debt swaps and swap arrangements with respect to our or third-party public and private indebtedness. Under these arrangements, we initially post collateral with the counterparty equal to a contractual percentage of the value of the referenced securities. We earn interest income based upon the face amount and stated interest rate of the referenced securities, and we pay interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying debt securities declines more than a pre-determined amount, we generally are required to post cash collateral for the decline, and we record an unrealized loss on financial instruments. The cash collateral is further adjusted up or down for subsequent changes in fair value of the underlying debt security.

In the fourth quarter of 2008, market value fluctuations related to $750 million principal amount of our exchangeable senior debentures that were underlying total return swaps attributable to the Capital Group caused a triggering event with respect to those swaps, allowing the counterparty to terminate the contract. As a result, we agreed to make a payment to the counterparty of $197 million to settle the contract and entered into a new swap agreement at a lower notional amount. We funded these payments with available cash and equity derivative credit facilities attributed to the Capital Group. At December 31, 2008, the aggregate notional amount of debt securities referenced under our debt swap arrangements, which related to $750 million principal amount of certain of our exchangeable senior debentures, was $188 million. As of such date, we had posted cash collateral equal to $38 million.

The projected uses of Capital Group cash in 2009 include $300 million for repayments of parent debt, $175 million for interest payments and approximately $130 million by Starz Media for the acquisition and production of films and television productions. We may also make additional investments in existing or new businesses and attribute such investments to the Capital Group. In this regard, on February 17, 2009, we announced that we had entered into agreements with Sirius XM Radio Inc. pursuant to which we agreed to invest up to an aggregate of $530 million in cash in Sirius XM and its subsidiaries. Such investment will be funded with cash on hand and/or borrowings under certain of our derivative instruments. In addition, we expect to generate taxable income and that we will make related federal tax payments.

We expect that the Capital Group's investing and financing activities will be funded with a combination of cash on hand, borrowings under Overture Films' credit facility, tax payments from the Interactive Group and the Entertainment Group, proceeds from collar expirations and dispositions of non-strategic assets. At December 31, 2008, the Capital Group's sources of liquidity include $1,496 million in cash, $104 million of short-term marketable securities and $3,677 million of non-strategic AFS securities including related derivatives. To the extent the Capital Group recognizes any taxable gains from the sale of assets or the expiration of derivative instruments, we may incur current tax expense and be required to make tax payments, thereby reducing any cash proceeds attributable to the Capital Group.

Our derivatives ("AFS Derivatives") related to certain of our available-for-sale investments provide the Capital Group with an additional source of liquidity. Based on the put price and assuming we deliver owned or borrowed shares to settle each of the AFS Derivatives as they mature and excluding any provision for income taxes, the Capital Group would have attributed to it cash proceeds of approximately $1,223 million in 2009 and $1,200 million in 2010 upon settlement of its AFS Derivatives.

Prior to the maturity of our equity derivatives, the terms of certain of these instruments allow borrowings against the future put option proceeds at LIBOR or LIBOR plus an applicable spread, as the case may be. As of December 31, 2008, we had borrowed $625 million against certain equity collars and the remaining borrowing capacity aggregated approximately $1,681 million. Such borrowings would reduce the cash proceeds upon settlement noted in the preceding paragraph. Subsequent to December 31, 2008 and in order to reduce our counterparty credit risk exposure, we borrowed an additional $1,638 million against certain of our derivative positions.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Entertainment Group

The following contingencies and obligations have been attributed to the Entertainment Group:

Starz Entertainment has entered into agreements with a number of motion picture producers which obligate Starz Entertainment to pay fees ("Programming Fees") for the rights to exhibit certain films that are released by these producers. The unpaid balance under agreements for film rights related to films that were available for exhibition by Starz Entertainment at December 31, 2008 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2008 is payable as follows: $95 million in 2009 and $7 million in 2010.

Starz Entertainment has also contracted to pay Programming Fees for the rights to exhibit films that have been released theatrically, but are not available for exhibition by Starz Entertainment until some future date. These amounts have not been accrued at December 31, 2008. Starz Entertainment's estimate of amounts payable under these agreements is as follows: $438 million in 2009; $172 million in 2010; $99 million in 2011; $94 million in 2012; $83 million in 2013 and $214 million thereafter.

In addition, Starz Entertainment is obligated to pay Programming Fees for all qualifying films that are released theatrically in the United States by studios owned by The Walt Disney Company ("Disney") through 2012 and all qualifying films that are released theatrically in the United States by studios owned by Sony Pictures Entertainment ("Sony") through 2016. Films are generally available to Starz Entertainment for exhibition 10 - 12 months after their theatrical release. The Programming Fees to be paid by Starz Entertainment are based on the quantity and domestic theatrical exhibition receipts of qualifying films. As these films have not yet been released in theatres, Starz Entertainment is unable to estimate the amounts to be paid under these output agreements. However, such amounts are expected to be significant. In February 2009, Disney announced that it has agreed to enter into a long-term distribution arrangement with DreamWorks Studios. Under the terms of this arrangement, Disney will handle distribution and marketing for approximately six DreamWorks films each year. As a result of this arrangement, the number of qualifying films under Starz Entertainment's output agreement with Disney may be higher than it would have been otherwise.

In connection with an option exercised by Sony to extend the Sony contract through 2013, Starz Entertainment has agreed to pay Sony a total of $190 million in four annual installments of $47.5 million beginning in 2011. Starz Entertainment's payments to Sony will be amortized ratably as programming expense over the three-year period beginning when Starz Entertainment receives the first qualifying film released theatrically by Sony in 2011. In December 2008, Starz Entertainment entered into a new agreement with Sony for theatrical releases through 2016. Under the extension, Starz Entertainment has agreed to pay Sony $120 million in three equal annual installments beginning in 2015. Such payments will be amortized ratably as programming expense over the three-year period beginning when Starz Entertainment receives the first qualifying film released theatrically by Sony in 2014.

Liberty guarantees Starz Entertainment's film licensing obligations under certain of its studio output agreements. At December 31, 2008, Liberty's guarantees for studio output obligations for films released by such date aggregated $756 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, Starz Entertainment has recognized the liability for a portion of its obligations under the output agreements. As this represents a direct commitment of Starz Entertainment, a consolidated subsidiary of ours, we have not recorded a separate indirect liability for our guarantees of these obligations.

Liberty Sports Group has entered into agreements with various professional and collegiate sports teams and leagues to purchase the rights to broadcast games through 2020. At December 31, 2008, such commitments aggregated $1,558 million and are due as follows: $160 million in 2009; $134 million in 2010; $133 million in 2011; $121 million in 2012; $105 million in 2013 and $905 million thereafter.

Capital Group

The Atlanta Braves and certain of their players and coaches have entered into long-term employment contracts whereby such individuals' compensation is guaranteed. Amounts due under guaranteed contracts as of December 31, 2008 aggregated $187 million, which is payable as follows: $81 million in 2009, $47 million in 2010, $35 million in 2011 and $24 million in 2012. In addition to the foregoing amounts, certain players and coaches may earn incentive compensation under the terms of their employment contracts.

Capital Group, Entertainment Group and Interactive Group

In connection with agreements for the sale of certain assets, we typically retain liabilities that relate to events occurring prior to the sale, such as tax, environmental, litigation and employment matters. We generally indemnify the purchaser in the event that a third party asserts a claim against the purchaser that relates to a liability retained by us. These types of indemnification guarantees typically extend for a number of years. We are unable to estimate the maximum potential liability for these types of indemnification guarantees as the sale agreements typically do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, we have not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

We have contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible we may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying consolidated financial statements.

Information concerning the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations at December 31, 2008 is summarized below:

	Payments due by period				
	Total	Less than year	2 - 3 years	4 - 5 years	After 5 years
	amounts in millions				
Attributed Entertainment Group contractual obligations					
Long-term debt(1)	$ 2,199	262	1,374	532	31
Interest payments(2)	23	3	6	6	8
Programming Fees(3)	1,202	533	278	177	214
Sports rights	1,558	160	267	226	905
Operating lease obligations	13	3	3	2	5
Total Entertainment Group	4,995	961	1,928	943	1,163
Attributed Capital Group contractual obligations					
Long-term debt(1)	4,950	437	334	759	3,420
Interest payments(2)	2,439	175	305	250	1,709
Long-term financial instruments	11	—	11	—	—
Operating lease obligations	100	13	25	22	40
Purchase orders and other obligations	236	130	82	24	—
Total Capital Group	7,736	755	757	1,055	5,169
Attributed Interactive Group contractual obligations					
Long-term debt(1)	7,553	175	5,252	811	1,315
Interest payments(2)	2,403	330	504	230	1,339
Long-term financial instruments	178	—	178	—	—
Operating lease obligations	104	21	33	20	30
Purchase orders and other obligations	879	879	—	—	—
Total Interactive Group	11,117	1,405	5,967	1,061	2,684
Consolidated contractual obligations					
Long-term debt(1)	14,702	874	6,960	2,102	4,766
Interest payments(2)	4,865	508	815	486	3,056
Programming Fees(3)	1,202	533	278	177	214
Sports rights	1,558	160	267	226	905
Long-term financial instruments	189	—	189	—	—
Operating lease obligations	217	37	61	44	75
Purchase orders and other obligations	1,115	1,009	82	24	—
Total consolidated	$23,848	3,121	8,652	3,059	9,016

(1) Includes all debt instruments, including the call option feature related to our exchangeable debentures. Amounts are stated at the face amount at maturity and may differ from the amounts stated in our consolidated balance sheet to the extent debt instruments (i) were issued at a discount or premium or (ii) have elements which are reported at fair value in our consolidated balance sheet. Also includes capital lease obligations. Amounts do not assume additional borrowings or refinancings of existing debt.

(2) Amounts (i) are based on our outstanding debt at December 31, 2008, (ii) assume the interest rates on our floating rate debt remain constant at the December 31, 2008 rates and (iii) assume that our existing debt is repaid at maturity.

(3) Does not include Programming Fees for films not yet released theatrically, as such amounts cannot be estimated.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *"Business Combinations"* ("Statement 141R"). Statement 141R replaces Statement of Financial Accounting Standards No. 141, *"Business Combinations"* ("Statement 141"), although it retains the fundamental requirement in Statement 141 that the acquisition method of accounting be used for all business combinations. Statement 141R establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree, (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase and (c) determines what information to disclose regarding the business combination. Statement 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year after December 15, 2008.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "*Noncontrolling Interests in Consolidated Financial Statements"* ("Statement 160"). Statement 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, commonly referred to as minority interest. Among other matters, Statement 160 requires (a) the noncontrolling interest be reported within equity in the balance sheet and (b) the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly presented in the statement of income. Statement 160 and EITF Topic 08-6 also require that SAB 51 Gains for subsidiaries be recorded in equity and SAB 51 Gains for equity affiliates be recorded in earnings. Statement 160 is effective for fiscal years beginning after December 15, 2008. Statement 160 is to be applied prospectively, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. We expect that our adoption of Statement 160 in 2009 will impact the accounting for purchases and sales and the presentation of the noncontrolling interests in our subsidiaries.

Critical Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Listed below are the accounting estimates that we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. All of these accounting estimates and assumptions, as well as the resulting impact to our financial statements, have been discussed with our audit committee.

Fair Value Measurements. Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements"* ("Statement 157"), defines fair value and establishes a framework for measuring fair value. Statement 157 does not prescribe when fair value measurements are required, but does put forth guidance as to how fair value is to be measured. We adopted the provisions of Statement 157 with respect to fair value measurements of financial instruments effective January 1, 2008, and we will adopt the provisions of Statement 157 with respect to fair value measurements of non-financial instruments effective January 1, 2009.

Financial Instruments. We record a number of assets and liabilities in our consolidated balance sheet at fair value on a recurring basis, including available-for-sale securities, financial instruments and our exchangeable senior debentures. Statement 157 provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. We use quoted market prices, or Level 1 inputs, to value our AFS securities. As of December 31, 2008, the carrying value of our AFS securities was $2,828 million.

Level 2 inputs are inputs, other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. We use the Black-Scholes Model to value many of our financial instruments. The inputs we use for the Black-Scholes Model include market prices of equity securities, volatilities for equity securities, dividend rates and risk free discount rates. We also consider our credit risk and counterparty credit risk in estimating the fair value of our financial instruments. While these inputs are observable, they are not all quoted market prices, so the fair values of our financial instruments fall in Level 2. As of December 31, 2008, the carrying value of our financial instrument assets and liabilities was $2,485 million and $742 million, respectively. We use quoted market prices to determine the fair value of our exchangeable senior debentures. However, these debentures are not traded on active markets as defined in Statement 157, so these liabilities also fall in Level 2. As of December 31, 2008, the principal amount and carrying value of our exchangeable debentures were $3,991 million and $1,691 million, respectively.

Level 3 inputs are unobservable inputs for an asset or liability. We currently have no Level 3 financial instrument assets or liabilities.

Non-Financial Instruments. Our non-financial instrument valuations are primarily comprised of our annual assessment of the recoverability of our goodwill and other nonamortizable intangibles, such as trademarks and our evaluation of the recoverability of our other long-lived assets upon certain triggering events. Statement of Financial Accounting Standards No. 142 and Statement of Financial Accounting Standards No. 144 require that we periodically, or upon the occurrence of certain triggering events, assess the recoverability of our long-lived assets. If the carrying value of our long-lived assets exceeds their estimated fair value, we are required to write the carrying value down to fair value. Any such writedown is included in impairment of long-lived assets in our consolidated statement of operations. A high degree of judgment is required to estimate the fair value of our long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. In addition, when the equity market capitalization of one of our tracking stock groups is lower than our estimate of the aggregate fair value of the reporting units attributable to such tracking stock group, we reconcile such difference to further support the carrying value of our long-lived assets. Due to the high degree of judgment involved in our estimation techniques, any value ultimately derived from our long-lived assets may differ from our estimate of fair value. As each of our operating segments has long-lived assets, this critical accounting policy affects the financial position and results of operations of each segment.

Carrying Value of Investments. Our cost and equity method investments comprise a significant portion of our total assets at each of December 31, 2008 and 2007. We account for these investments pursuant to Statement of Financial Accounting Standards No. 115, Statement of Financial Accounting Standards No. 159, Accounting Principles Board Opinion No. 18, EITF Topic 03-1 and SAB No. 59. These accounting principles require us to periodically evaluate our investments to determine if decreases in fair value below our cost bases are other than temporary. If a decline in fair value is determined to be other than temporary, we are required to reflect such decline in our consolidated statement of operations. Other than temporary declines in fair value of our cost investments are recognized on a separate line in our consolidated statement of operations, and other than temporary declines in fair value of our equity method investments are included in share of losses of affiliates in our consolidated statement of operations.

The primary factors we consider in our determination of whether declines in fair value are other than temporary are the length of time that the fair value of the investment is below our carrying value; the severity of the decline; and the financial condition, operating performance and near term prospects of the investee. In addition, we consider the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and our intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. Fair value of our publicly traded cost investments is based on the market prices of the investments at the balance sheet date. We estimate the fair value of our other cost and equity investments using a variety of methodologies, including cash flow multiples, discounted cash flow, per subscriber values, or values of comparable public or private businesses. Impairments are calculated as the difference between our carrying value and our estimate of fair value. As our assessment of the fair value of our investments and any resulting impairment losses and the timing of when to recognize such charges requires a high degree of judgment and includes significant estimates and assumptions, actual results could differ materially from our estimates and assumptions.

Our evaluation of the fair value of our investments and any resulting impairment charges are made as of the most recent balance sheet date. Changes in fair value subsequent to the balance sheet date due to the factors described above are possible. Subsequent decreases in fair value will be recognized in our consolidated statement of operations in the period in which they occur to the extent such decreases are deemed to be other than temporary. Subsequent increases in fair value will be recognized in our consolidated statement of operations only upon our ultimate disposition of the investment.

At December 31, 2008, we had unrealized holding losses of $4 million related to certain of our available-for-sale securities.

Retail Related Adjustments and Allowances. QVC records adjustments and allowances for sales returns, inventory obsolescence and uncollectible receivables. Each of these adjustments is estimated based on historical experience. Sales returns are calculated as a percent of sales and are netted against revenue in our consolidated statement of operations. For the years ended December 31, 2008, 2007 and 2006, sales returns represented 19.8%, 18.7% and 18.5% of QVC's gross product revenue, respectively. The inventory obsolescence reserve is calculated as a percent of QVC's inventory at the end of a reporting period based on among other factors, the average inventory balance for the preceding 12 months and historical experience with liquidated inventory. The change in the reserve is included in cost of goods sold in our consolidated statements of operations. At December 31, 2008, QVC's inventory is $923 million, which is net of the obsolescence adjustment of $104 million. QVC's allowance for doubtful accounts is calculated as a percent of accounts receivable at the end of a reporting period, and the change in such allowance is recorded as bad debt expense in our consolidated statements of operations. At December 31, 2008, QVC's trade accounts receivable are $1,166 million, net of the allowance for doubtful accounts of $74 million. Each of these adjustments requires management judgment and may not reflect actual results.

Income Taxes. We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns for each taxing jurisdiction in which we operate. This process requires our management to make judgments regarding the timing and probability of the ultimate tax impact of the various agreements and transactions that we enter into. Based on these judgments we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realizability of future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which we operate, our inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes could have a significant impact on our financial position.

Interactive Group

The Interactive Group consists of our subsidiaries QVC, Provide, Backcountry, Bodybuilding and BuySeasons, our interests in IAC/InterActiveCorp, Expedia, HSN, Interval, Ticketmaster, Tree.com and GSI Commerce, Inc. and $2,263 million principal amount (as of December 31, 2008) of our publicly-traded debt.

The following discussion and analysis provides information concerning the results of operations of the Interactive Group. Although the Interactive Group was not formed until May 9, 2006, the following discussion is presented as though it was formed on January 1, 2006. The results of operations of Provide, BuySeasons, Backcountry and Bodybuilding are included in e-commerce businesses since their respective date of acquisition in the tables below. Fluctuations in e-commerce businesses from 2006 to 2007 to 2008 are due primarily to the acquisitions of Provide and BuySeasons in 2006 and Backcountry and Bodybuilding in 2007. In addition to these acquisitions, Provide's revenue and Adjusted OIBDA increased 24% and 74%, respectively, for the year ended December 31, 2008, as compared to the corresponding prior year. Although our e-commerce businesses continue to grow their revenue and Adjusted OIBDA, the current economic crisis has slowed this growth. As further described above in our discussion of our consolidated results of operations, the impact of current economic conditions has resulted in impairment charges for certain of our reporting units. Such impairment charges aggregated $56 million for our e-commerce businesses and caused a decrease in our 2008 operating income.

This discussion should be read in conjunction with (1) our consolidated financial statements and notes thereto included elsewhere herein and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups starting on page F-106.

Results of Operations

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Revenue			
QVC	$7,303	7,397	7,074
e-commerce businesses	776	405	252
Corporate and other	—	—	—
	$8,079	7,802	7,326
Adjusted OIBDA			
QVC	$1,502	1,652	1,656
e-commerce businesses	71	40	30
Corporate and other	(18)	(8)	(6)
	$1,555	1,684	1,680
Operating Income (Loss)			
QVC	$ 956	1,114	1,130
e-commerce businesses	(29)	16	14
Corporate and other	(21)	(17)	(14)
	$ 906	1,113	1,130

QVC. QVC is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs and via the Internet. In the United States, QVC's live programming is aired through its nationally televised shopping network 24 hours a day ("QVC-US"). Internationally, QVC's program services are based in the United Kingdom ("QVC-UK"), Germany ("QVC-Germany") and Japan ("QVC-Japan"). QVC-UK broadcasts 24 hours a day with 17 hours of live programming, and QVC-Germany and QVC-Japan each broadcast live 24 hours a day.

QVC's operating results are as follows:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Net revenue	$ 7,303	7,397	7,074
Cost of sales	(4,719)	(4,682)	(4,426)
Gross profit	2,584	2,715	2,648
Operating expenses	(703)	(690)	(653)
SG&A expenses (excluding stock-based compensation)	(379)	(373)	(339)
Adjusted OIBDA	1,502	1,652	1,656
Stock-based compensation	(15)	(22)	(50)
Depreciation and amortization	(531)	(516)	(476)
Operating income	$ 956	1,114	1,130

Net revenue is generated in the following geographical areas:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
QVC-US	$4,911	5,208	4,983
QVC-UK	660	707	612
QVC-Germany	954	870	848
QVC-Japan	778	612	631
	$7,303	7,397	7,074

QVC's net revenue decreased 1.3% and increased 4.6% for the years ended December 31, 2008 and 2007, respectively, as compared to the corresponding prior year. The 2008 decrease is comprised of $257 million due to a 3.9% decrease in the number of units shipped and $97 million due to lower shipping and handling revenue and an increase in estimated product returns. These decreases were partially offset by a $167 million increase due to a 3.0% increase in the average sales price per unit ("ASP") and $93 million due to favorable foreign currency rates. Returns as a percent of gross product revenue increased from 18.7% to 19.8% and reflect a higher ASP and a shift in the mix from home products to accessories and apparel products, which typically have higher return rates.

The 2007 increase in revenue is comprised of $101 million related to a 1.3% increase in the number of units shipped from 165.7 million to 167.8 million, $125 million due to a 1.6% increase in the ASP and a $122 million increase due to favorable foreign currency rates. These increases were partially offset by a net decrease of $25 million primarily due to an increase in estimated product returns. Returns as a percent of gross product revenue increased from 18.5% in 2006 to 18.7% in 2007.

During the years ended December 31, 2008 and 2007, the changes in revenue and expenses were impacted by changes in the exchange rates for the UK pound sterling, the euro and the Japanese yen. In the event the U.S. dollar strengthens against these foreign currencies in the future, QVC's revenue and operating cash flow will be negatively impacted. The percentage increase (decrease) in revenue for each of QVC's geographic areas in dollars and in local currency is as follows:

	Percentage increase (decrease) in net revenue			
	Year ended December 31, 2008		Year ended December 31, 2007	
	U.S. dollars	Local currency	U.S. dollars	Local currency
QVC-US	(5.7)%	(5.7)%	4.5%	4.5%
QVC-UK	(6.6)%	2.0%	15.5%	6.5%
QVC-Germany	9.7%	3.1%	2.6%	(5.9)%
QVC-Japan	27.1%	11.0%	(3.0)%	(2.0)%

Revenue for QVC-US continues to be negatively impacted by a slow retail environment with sales weakness experienced in jewelry, apparel and home products. In addition, QVC-US has experienced an increase in return rates which is reflective of the product mix shift, higher ASP and general economic conditions. In the fourth quarter of 2008, QVC-US revenue decreased 11.6%, as compared to the fourth quarter of 2007, as the U.S. economic crisis worsened. QVC-UK showed an increase in revenue in local currency for the first three quarters of 2008 but a decline in the fourth quarter as economic conditions deteriorated, resulting in year to date net growth of 2.0% in local currency. The decline is the result of a slow down in the sales of home products and accessories. QVC-Germany has experienced growth in the accessories category and to a lesser extent, in home products. QVC-Japan increased net revenue in local currency due primarily to increases in apparel, accessories and jewelry as it continues to overcome the impacts of the heightened regulatory focus on health and beauty product presentations which began in March 2007 and caused QVC-Japan to remove a number of products from its programming.

The QVC service is already received by substantially all of the cable television and direct broadcast satellite homes in the U.S. and Germany. In addition, the rate of growth in households is expected to diminish in the UK and Japan. Therefore, future sales growth will primarily depend on additions of new customers from homes already receiving the QVC service and growth in sales to existing customers. QVC's future sales may also be affected by (i) the willingness of cable and satellite distributors to continue carrying QVC's programming service, (ii) QVC's ability to maintain favorable channel positioning, which may become more difficult as distributors convert analog customers to digital, (iii) changes in television viewing habits because of personal video recorders, video-on-demand and IP television and (iv) general economic conditions.

QVC's gross profit percentage was 35.4%, 36.7% and 37.4% for the years ended December 31, 2008, 2007 and 2006, respectively. The decrease in gross profit percentage in 2008 is primarily due to lower initial product margins across all product categories. The decrease in gross profit percentage in 2007 is due primarily to higher distribution costs and to a lesser extent, a higher obsolescence provision. The higher distribution costs resulted from increases in shipping rates and costs associated with new distribution centers in the U.S. and Japan for which economies of scale had not yet been achieved.

QVC's operating expenses are principally comprised of commissions, order processing and customer service expenses, credit card processing fees, telecommunications expense and production costs. Operating expenses increased 1.9% and 5.7% for the years ended December 31, 2008 and 2007, respectively, as compared to the corresponding prior year period. As a percentage of net revenue, operating expenses were 9.6%, 9.3% and 9.2% for 2008, 2007 and 2006, respectively. The 2008 increase in operating expenses as a percent of revenue is due primarily to programming expenses, which are generally fixed costs, and to a lesser extent, increased commissions expense due to new fixed-rate agreements in QVC-UK and QVC-Japan. The increase in 2007 operating expenses was primarily due to increased sales.

QVC's SG&A expenses include personnel, information technology, provision for doubtful accounts, credit card income and marketing and advertising expenses. Such expenses increased 1.6% and 10.0% during the years ended December 31, 2008 and 2007, respectively, as compared to the corresponding prior year. The 2008 increase is due primarily to a $27 million increase in the bad debt provision and personnel expenses for salaries and benefits. QVC has experienced an increase in write-offs and reserves related to its installment receivables and private label credit card. Such increases in bad debt are due to an increase in customer use of the installment payment plan offered by QVC and to the recessionary economic conditions. Personnel expenses increased primarily due to severance expenses of $13 million primarily related to a reduction in workforce communicated in the fourth quarter of 2008. These increases are partially offset by an increase in credit card income of $14 million, a $9 million reversal in sales tax expense related to the settlement of certain audits as well as the non-reoccurrence of the marketing and legal items noted for the 2007 increases. The 2007 increase is due primarily to (i) an $11 million increase in marketing and advertising expense related to QVC's new branding campaign and other marketing initiatives, (ii) an $8 million increase in franchise taxes driven by the Company's settlement of certain franchise tax audit issues in 2006 which caused a $15 million reversal of franchise tax reserves in the prior year, (iii) a $5 million accrual for a legal settlement and (iv) a $5 million net increase in personnel expenses due to merit and headcount increases offset by decreased management bonus compensation.

QVC's depreciation and amortization expense increased for the years ended December 31, 2008 and 2007. Such increases are due to fixed asset and software additions.

Entertainment Group

The Entertainment Group is comprised of our subsidiaries Starz Entertainment, Liberty Sports Group and FUN, as well as equity interests in DIRECTV, GSN and WildBlue Communications, approximately $633 million of corporate cash, an equity collar on 98.75 million shares of DIRECTV common stock and $1,981 million of borrowings against the put value of such collar.

The following discussion and analysis provides information concerning the attributed results of operations of the Entertainment Group and is presented as through the Reclassification had been completed on January 1, 2006. This discussion should be read in conjunction with (1) our consolidated financial statements and notes thereto included elsewhere herein and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups starting on page F-106.

Results of Operations

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Revenue			
Starz Entertainment	$ 1,111	1,066	1,033
Corporate and other	280	70	42
	$ 1,391	1,136	1,075
Adjusted OIBDA			
Starz Entertainment	$ 301	264	186
Corporate and other	23	(9)	(18)
	$ 324	255	168
Operating Income (Loss)			
Starz Entertainment	$ (975)	210	163
Corporate and other	(27)	(79)	(151)
	$(1,002)	131	12

Revenue. The Entertainment Group's revenue increased $255 million or 22.4% and $61 million or 5.7% for the years ended December 31, 2008 and 2007, respectively, as compared to the corresponding prior year. The 2008 increase is primarily due to our acquisition of Liberty Sports Group which generated $210 million of revenue. The 2007 increase in corporate and other is due to a full year of operations for FUN, as well as small acquisitions made by FUN.

Adjusted OIBDA. The Entertainment Group's Adjusted OIBDA increased $69 million or 27.1% and $87 million or 51.8% in 2008 and 2007, respectively, as compared to the corresponding prior year. In addition to the increase for Starz Entertainment in 2008, Liberty Sports Group generated $33 million of Adjusted OIBDA. FUN's Adjusted OIBDA improved $13 million in 2007.

Impairment of long-lived assets. In connection with our 2008 annual evaluation of the recoverability of our goodwill, we estimated the fair value of our reporting units using a combination of discounted cash flows and market comparisons and determined that the carrying value of the goodwill for Starz Entertainment and FUN exceeded their respective fair values and we recorded impairment charges of $1,239 million and $18 million for Starz Entertainment and FUN, respectively. See our discussion of our consolidated results of operations above for a more complete description of these impairment charges.

During the third quarter of 2007, FUN recognized a $41 million impairment loss related to its sports information segment due to new competitors in the marketplace and the resulting loss of revenue and operating income. We acquired our interest in FUN in March 2006. Subsequent to our acquisition, the market value of FUN's stock declined significantly due to the performance of certain of FUN's subsidiaries and uncertainty surrounding government legislation of Internet gambling which we believe the market perceived as potentially impacting FUN's skill games business. In connection with our 2006 annual evaluation of the recoverability of FUN's goodwill, we estimated the fair value of FUN's goodwill using discounted cash flows and market comparisons. We concluded that the carrying value of FUN's goodwill exceeded its market value, and recognized a corresponding impairment charge.

Operating income (loss). The operating loss in 2008 is due primarily to the impairment charges discussed above. The improvement in operating income in 2007 is due to Starz Entertainment as well as a lower impairment charge recognized by FUN.

Starz Entertainment. Starz Entertainment provides premium programming distributed by cable operators, direct-to-home satellite providers, telephone companies, other distributors and the Internet throughout the United States. Substantially all of Starz Entertainment's revenue is derived from the delivery of movies to subscribers under affiliation agreements with television video programming distributors. Some of Starz Entertainment's affiliation agreements provide for payments to Starz Entertainment based on the number of subscribers that receive Starz Entertainment's services. Starz Entertainment also has fixed-rate affiliation agreements with certain of its customers. Pursuant to these agreements, the customers pay an agreed-upon rate regardless of the number of subscribers. The agreed-upon rate is contractually increased annually or semi-annually as the case may be, and these agreements, expire in 2009 through 2013. During the year ended December 31, 2008, 70% of Starz Entertainment's revenue was generated by its four largest customers, Comcast, DIRECTV, Dish Network and Time Warner, each of which individually generated more than 10% of Starz Entertainment's revenue for such period. Starz Entertainment's affiliation agreement with DIRECTV continues on a month-to-month basis without limitation provided that either party may terminate the agreement upon 60 days written notice to the other party. Comcast's affiliation agreement to distribute Encore expires in September 2009. DISH Network's affiliation agreement expires in June 2009 and Time Warner's affiliation agreement expires at the end of December 2009.

Starz Entertainment's operating results are as follows:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Revenue	$ 1,111	1,066	1,033
Operating expenses	(675)	(692)	(743)
SG&A expenses	(135)	(110)	(104)
Adjusted OIBDA	301	264	186
Stock-based compensation	(19)	(33)	3
Depreciation and amortization	(18)	(21)	(26)
Impairment of long-lived assets	(1,239)	—	—
Operating income (loss)	$ (975)	210	163

Starz Entertainment's revenue increased 4.2% and 3.2% for the years ended December 31, 2008 and 2007, respectively, as compared to the corresponding prior year. The increase in revenue in 2008 is comprised of $33 million due to a higher effective rate for Starz Entertainment's services and $12 million due to growth in the weighted average number of subscriptions.

During the third quarter of 2007, Starz Entertainment entered into a new affiliation agreement with DIRECTV which was retroactive to January 1, 2007 and extended through the end of 2008. The previous affiliation agreement with DIRECTV expired June 30, 2006. Since June 30, 2006, Starz Entertainment had recognized revenue from DIRECTV based on cash payments from DIRECTV which were at lower rates than required by the old affiliation agreement. The new affiliation agreement provided for rates that were higher than those paid by DIRECTV since June 30, 2006, but lower than the rates in the old affiliation agreement. Accordingly, in the third quarter of 2007, Starz Entertainment recognized $7 million of revenue related to 2006 based on the difference between the rates provided in the new affiliation agreement and the rates previously paid by DIRECTV. In addition to the retroactive impact of the new DirecTV affiliation agreement noted above, the 2007 increase in revenue is due to a $26 million increase resulting from growth in the average number of subscription units for Starz Entertainment's services.

The Starz movie service and Encore and the Encore thematic multiplex channels ("EMP") movie service are the primary drivers of Starz Entertainment's revenue. Starz average subscriptions increased

6.7% and 7.5% in 2008 and 2007, respectively; and EMP average subscriptions increased 8.1% and 8.8% in 2008 and 2007, respectively. The effects on revenue of these increases in subscriptions units are somewhat mitigated by the fixed-rate affiliation agreements that Starz Entertainment has entered into in recent years. In this regard, 55% and 76% of the increase in Starz and EMP average subscriptions in 2008 and approximately 36% of Starz Entertainment's revenue in 2008 and 2007 was earned under its fixed-rate affiliation agreements.

At December 31, 2008, cable, direct broadcast satellite, and other distribution represented 65.6%, 28.5% and 5.9%, respectively, of Starz Entertainment's total subscription units.

Starz Entertainment's operating expenses decreased 2.5% and 6.9% for the years ended December 31, 2008 and 2007, respectively, as compared to the corresponding prior year. Such decreases are due primarily to a reduction in programming costs, which decreased from $703 million for the year ended December 31, 2006 to $656 million in 2007 and to $629 million in 2008. The 2008 decrease in programming expense is due to lower amortization ($25 million) of upfront bonus payments made under output agreements and a decrease in the percentage of first-run movie exhibitions (which have a relatively higher cost per title) as compared to the number of library product exhibitions ($44 million), partially offset by a higher effective rate for first-run movies ($34 million) and the amortization of production costs for original series ($8 million).

The 2007 decrease in programming costs is due primarily to a lower effective rate for the movie titles exhibited in 2007. Such decrease was partially offset by an increase in the percentage of first-run movie exhibitions as compared to the number of library product exhibitions. In addition to the foregoing programming cost reductions, Starz Entertainment reversed an accrual in the amount of $7 million for music copyright fees in the third quarter of 2007 as a result of a settlement with a music copyright authority.

Starz Entertainment's SG&A expenses increased 22.7% and 5.8% during 2008 and 2007, respectively, as compared to the corresponding prior year. The 2008 increase is due primarily to higher marketing and advertising costs related to Starz new branding campaign and an increase in marketing support. Starz Entertainment currently expects its 2009 marketing and advertising expenses to approximate its 2008 expenditures. The 2007 increase is due primarily to increases in personnel costs and marketing expenses.

Starz Entertainment has outstanding phantom stock appreciation rights held by its former chief executive officer. Starz Entertainment also has a long-term incentive plan for certain members of its current management team. Compensation relating to the PSARs and the long-term incentive plan has been recorded based upon the estimated fair value of Starz Entertainment. The amount of expense associated with the PSARs and the long-term incentive plan is generally based on the change in the fair value of Starz Entertainment. The value of the PSARs decreased in 2008 due to a decrease in the value of Starz Entertainment.

As discussed above, Starz Entertainment recorded a $1,239 million impairment charge in 2008.

Capital Group

The Capital Group is comprised of our subsidiaries and assets not attributed to the Interactive Group or the Entertainment Group, including controlling interests in Starz Media, ANLBC, TruePosition, Leisure Arts and WFRV TV Station, as well as minority investments in Time Warner Inc., Sprint Nextel Corporation and other public and private companies. In addition, we have attributed $4,815 million principal amount (as of December 31, 2008) of our exchangeable senior debentures and other parent debt to the Capital Group.

The following discussion and analysis provides information concerning the attributed results of operations of the Capital Group. The following discussion is presented as though the Reclassification had been completed on January 1, 2006. This discussion should be read in conjunction with (1) our consolidated financial statements and notes thereto included elsewhere herein and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups starting on page F-106.

Results of Operations

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Revenue			
Starz Media	$ 321	254	86
Corporate and other	296	231	126
	$ 617	485	212
Adjusted OIBDA			
Starz Media	$(189)	(143)	(24)
Corporate and other	(105)	(67)	(41)
	$(294)	(210)	(65)
Operating Loss			
Starz Media	$(395)	(342)	(29)
Corporate and other	(253)	(164)	(92)
	$(648)	(506)	(121)

Revenue. The Capital Group's combined revenue increased 27.2% and 128.8% for the years ended December 31, 2008 and 2007, respectively, as compared to the corresponding prior year. The increase in Starz Media's revenue in 2008 is due primarily to (i) $63 million recognized from the theatrical release of eight films by Overture Films and one film by Starz Animation, as compared with no film releases in 2007, and (ii) an increase of $28 in home video revenue. These increases in revenue were partially offset by a $20 million decrease in revenue related to for-hire animation projects. Included in Capital Group's corporate and other revenue are payments from CNBC related to a revenue sharing agreement between our company and CNBC. The agreement has no termination date, and payments aggregated $24 million, $21 million and $19 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Corporate and other revenue increased in 2008 primarily due to having a full year of operations for ANLBC.

The 2007 increase in revenue is due primarily to a full year of revenue for Starz Media, which increased $168 million, and our acquisition of ANLBC, which generated $159 million of revenue. These increases were partially offset by an $88 million decrease for TruePosition as further described below.

In November 2006, TruePosition signed an amendment to its existing services contract with AT&T Corp. that requires TruePosition to develop and deliver additional software features. Because TruePosition does not have vendor specific objective evidence related to the value of these additional features, TruePosition is required to defer revenue recognition until all of the features have been delivered. TruePosition currently estimates that these features will be delivered by the end of 2009. Accordingly, absent any further contractual changes, TruePosition will not recognize any significant revenue under this contract until 2010. TruePosition recognized approximately $105 million of revenue under this contract in 2006 prior to signing the amendment. TruePosition's services contract with its other major customer, T-Mobile, Inc., has a similar provision which prevents TruePosition from recognizing revenue. It should be noted that both AT&T and T-Mobile are paying currently for services they receive and that the aforementioned deferrals have normal gross profit margins included.

Adjusted OIBDA. The Capital Group's Adjusted OIBDA loss increased $84 million and $145 million in 2008 and 2007, respectively, as compared to the corresponding prior year. Starz Media's Adjusted OIBDA loss increased in 2008 primarily due to the timing of revenue and expenses associated with films released by Overture Films and Starz Animation in 2008, partially offset by a $53 million decrease in capitalized production cost write-offs. Theatrical print costs and advertising expenses related to the release of a film are recognized at the time the advertisements are run and generally exceed the theatrical revenue earned from the film. In addition, amortization of film production costs begins when revenue recognition begins. Although there can be no assurance, the expectation when films are approved for production or acquisition is that the ultimate revenue to be earned from theatrical release, home video and pay-per-view and premium television distribution, which revenue may be earned over several years, will exceed the costs associated with the film. In the corporate and other segment, ANLBC's Adjusted OIBDA decreased $22 million in 2008 due to the inclusion of the first four months of the year during which ANLBC generally operates at a loss as no significant revenue is recognized until the first home game of the year in April. TruePosition's Adjusted OIBDA loss increased $22 million in 2008 due to costs incurred for new product and service initiatives.

In 2007, Adjusted OIBDA losses for Starz Media and TruePosition increased $119 million and $75 million, respectively, as compared to 2006. These Adjusted OIBDA decreases were partially offset by an increase for ANLBC of $38 million. We acquired ANLBC in May 2007, and therefore, did not own it during the first quarter of the year when ANLBC operates at a loss as no revenue is earned during this period. ANLBC's full year 2007 Adjusted OIBDA was approximately $23 million. Starz Media's Adjusted OIBDA loss resulted from (i) the $79 million write-off of capitalized production costs due to the abandonment of certain films and downward adjustments to the revenue projections for certain TV series and other films, (ii) start up costs for Overture Films and (iii) lower than expected revenue for Anchor Bay, its DVD distribution division. We currently expect Starz Media to continue incurring Adjusted OIBDA losses and operating losses for the next two to three years. TruePosition's Adjusted OIBDA loss was due in large part to the deferral of revenue under its AT&T and T-Mobile contracts described above and to losses incurred in connection with new product and service initiatives ($25 million).

Impairment of long-lived assets. In the third quarter of 2008, based on certain triggering events, we evaluated the recoverability of WFRV TV Station's long-lived assets and preliminarily determined that a $34 million impairment charge was needed. Such amount was further adjusted to $59 million in the fourth quarter of 2008. In connection with our 2008 annual evaluation of the recoverability of our goodwill, we estimated the fair value of our reporting units using a combination of discounted cash flows and market comparisons and determined that the carrying value of the goodwill for Starz Media exceeded its fair value and we recorded an impairment charge of $192 million. See our discussion of our consolidated results of operations above for a more complete description of this impairment charge.

In connection with our 2007 annual evaluation of the recoverability of Starz Media's goodwill, we estimated the fair value of Starz Media's reporting units using a combination of discounted cash flows and market comparisons and concluded that the carrying value of certain reporting units exceeded their respective fair values. Accordingly, we recognized a $182 million impairment charge related to goodwill.

Operating loss. The Capital Group's operating losses increased in 2008 and 2007. The 2008 increase is due to the Adjusted OIBDA losses and impairment charges discussed above. The 2007 increase is due primarily to increased operating losses of $313 million for Starz Media and $73 million for TruePosition.

Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risk in the normal course of business due to our ongoing investing and financial activities and the conduct of operations by our subsidiaries in different foreign countries. Market risk refers to the risk of loss arising from adverse changes in stock prices, interest rates and foreign currency exchange rates. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include investments in fixed and floating rate debt instruments and borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We have achieved this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity, (ii) issuing variable rate debt with appropriate maturities and interest rates and (iii) entering into interest rate swap arrangements when we deem appropriate. As of December 31, 2008, and considering the effects of our interest rate swap agreements, our debt is comprised of the following amounts.

	Variable rate debt		Fixed rate debt	
	Principal amount	Weighted avg interest rate	Principal amount	Weighted avg interest rate
	dollar amounts in millions			
Interactive Group	$2,437	2.4%	$5,116	5.6%
Capital Group	$1,508	4.3%	$3,442	3.6%
Entertainment Group	$ —	N/A	$2,033	3.5%

Each of our tracking stock groups is exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. We use equity collars and other financial instruments to manage market risk associated with certain investment positions. These instruments are recorded at fair value based on option pricing models.

At December 31, 2008, the fair value of our AFS securities attributed to the Capital Group was $2,087 million. Had the market price of such securities been 10% lower at December 31, 2008, the aggregate value of such securities would have been $209 million lower. Such decrease would be partially offset by an increase in the value of our AFS Derivatives. Our exchangeable senior debentures are also subject to market risk. Because we mark these instruments to fair value each reporting date, increases in the stock price of the respective underlying security generally result in higher liabilities and unrealized losses in our statement of operations.

The Interactive Group is exposed to foreign exchange rate fluctuations related primarily to the monetary assets and liabilities and the financial results of QVC's foreign subsidiaries. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated into U.S. dollars at period-end exchange rates, and the statements of operations are generally translated at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive earnings (loss) as a separate component of stockholders' equity. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at the average rate for the period. Accordingly, the Interactive Group may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations.

We periodically assess the effectiveness of our derivative financial instruments. With regard to interest rate swaps, we monitor the fair value of interest rate swaps as well as the effective interest rate the interest rate swap yields, in comparison to historical interest rate trends. We believe that any losses incurred with regard to interest rate swaps would be offset by the effects of interest rate movements on the underlying debt facilities. With regard to equity collars, we monitor historical market trends relative to values currently present in the market. We believe that any unrealized losses incurred with regard to equity collars and swaps would be offset by the effects of fair value changes on the underlying assets. These measures allow our management to evaluate the success of our use of derivative instruments and to determine when to enter into or exit from derivative instruments.

Our derivative instruments are executed with counterparties who are well known major financial institutions with high credit ratings. While we believe these derivative instruments effectively manage the risks highlighted above, they are subject to counterparty credit risk. Counterparty credit risk is the risk that the counterparty is unable to perform under the terms of the derivative instrument upon settlement of the derivative instrument. To protect ourselves against credit risk associated with these counterparties we generally:

- execute our derivative instruments with several different counterparties, and
- execute equity derivative instrument agreements which contain a provision that requires the counterparty to post the "in the money" portion of the derivative instrument into a cash collateral account for our benefit, if the respective counterparty's credit rating for its senior unsecured debt were to reach certain levels, generally a rating that is below Standard & Poor's rating of A- and/or Moody's rating of A3.

In addition, to the extent we borrow against a derivative instrument, we have a right of offset with respect to our borrowings and amounts due from the counterparty under the derivative, thereby reducing our counterparty credit risk.

Due to the importance of these derivative instruments to our risk management strategy, we actively monitor the creditworthiness of each of these counterparties. Based on our analysis, we currently consider nonperformance by any of our counterparties to be unlikely.

Our counterparty credit risk by financial institution is summarized below:

Counterparty	**Aggregate fair value of derivative instruments at December 31, 2008**
	amounts in millions
Bank of America	$1,306
Deutsche Bank	1,087
Other	92
	$2,485

As noted above, subsequent to December 31, 2008, we borrowed an additional $1,638 million against certain derivative positions, bringing our total borrowings to approximately $4.3 billion including the Collar Loan.

Financial Statements and Supplementary Data.

The consolidated financial statements of Liberty Media Corporation are filed under this Item, beginning on Page II-42. The financial statement schedules required by Regulation S-X are filed under Item 15 of this Annual Report on Form 10-K.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

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 December 31, 2008 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.

See page F-40 for *Management's Report on Internal Control Over Financial Reporting.*

See page F-41 for *Report of Independent Registered Public Accounting Firm* for our accountant's attestation regarding our internal control over financial reporting.

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Other Information.

None.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Liberty Media Corporation's management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements and related disclosures in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements and related disclosures in accordance with generally accepted accounting principles; (3) provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (4) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements and related disclosures.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company assessed the design and effectiveness of internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework*.

Based upon our assessment using the criteria contained in COSO, management has concluded that, as of December 31, 2008, Liberty Media Corporation's internal control over financial reporting is effectively designed and operating effectively.

Liberty Media Corporation's independent registered public accountants audited the consolidated financial statements and related disclosures in the Annual Report on Form 10-K and have issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears on page F-41.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited Liberty Media Corporation's internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Liberty Media Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Liberty Media Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Liberty Media Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive earnings, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2008, and our report dated February 26, 2009 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Denver, Colorado
February 26, 2009

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Media Corporation and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive earnings, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Media Corporation and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 3 and 6 to the accompanying consolidated financial statements, effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, *including an amendment of FASB Statement No. 115*, and SFAS No. 157, *Fair Value Measurements*, and effective January 1, 2007, the Company adopted SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140*, and Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, *an interpretation of FASB Statement No. 109*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Liberty Media Corporation and subsidiaries' internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Denver, Colorado
February 26, 2009

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007

	2008	2007
	amounts in millions	
Assets		
Current assets:		
Cash and cash equivalents	$ 3,135	3,135
Trade and other receivables, net	1,563	1,517
Inventory, net	1,032	975
Program rights	497	515
Financial instruments (note 10)	1,157	23
Other current assets	235	144
Total current assets	7,619	6,309
Investments in available-for-sale securities and other cost investments, including $392 million and $1,183 million pledged as collateral for share borrowing arrangements (note 7)	2,859	17,569
Long-term financial instruments (note 10)	1,328	1,590
Investments in affiliates, accounted for using the equity method (note 8)	14,490	1,817
Investment in special purpose entity (note 9)	—	750
Property and equipment, at cost	2,027	1,894
Accumulated depreciation	(696)	(543)
	1,331	1,351
Intangible assets not subject to amortization (note 11):		
Goodwill	6,550	7,855
Trademarks	2,511	2,515
Other	158	173
	9,219	10,543
Intangible assets subject to amortization, net (note 11)	3,489	3,863
Other assets, at cost, net of accumulated amortization (note 9)	1,568	1,857
Total assets	$41,903	45,649

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2008 and 2007

	2008	2007
	amounts in millions	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 550	605
Accrued interest	103	148
Other accrued liabilities	999	936
Financial instruments (note 10)	553	1,206
Current portion of debt (note 12)	868	191
Accrued stock compensation	196	207
Current deferred income tax liabilities (note 13)	781	93
Other current liabilities	98	88
Total current liabilities	4,148	3,474
Long-term debt, including $1,691 million and $3,690 million measured at fair value (note 12)	11,359	11,524
Long-term financial instruments (note 10)	189	176
Deferred income tax liabilities (note 13)	4,900	8,458
Other liabilities	1,550	1,565
Total liabilities	22,146	25,197
Minority interests in equity of subsidiaries	155	866
Stockholders' equity (note 14):		
Preferred stock, $.01 par value. Authorized 50,000,000 shares; no shares issued	—	—
Series A Liberty Capital common stock, $.01 par value. Authorized 2,000,000,000 shares; issued and outstanding 90,042,840 shares at December 31, 2008	1	—
Series B Liberty Capital common stock, $.01 par value. Authorized 75,000,000 shares; issued and outstanding 6,024,724 shares at December 31, 2008	—	—
Series A Liberty Entertainment common stock, $.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 493,256,228 shares at December 31, 2008	5	—
Series B Liberty Entertainment common stock, $.01 par value. Authorized 150,000,000 shares; issued and outstanding 23,706,209 shares at December 31, 2008	—	—
Series A Liberty Interactive common stock, $.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 564,385,343 shares and 568,864,900 shares at December 31, 2008 and 2007	6	6
Series B Liberty Interactive common stock, $.01 par value. Authorized 150,000,000 shares; issued and outstanding 29,441,916 shares and 29,502,405 shares at December 31, 2008 and 2007	—	—
Old Series A Liberty Capital common stock, $.01 par value. Issued and outstanding 123,154,134 shares at December 31, 2007	—	1
Old Series B Liberty Capital common stock, $.01 par value. Issued and outstanding 5,988,319 shares at December 31, 2007	—	—
Additional paid-in capital	25,132	25,637
Accumulated other comprehensive earnings, net of taxes (note 18)	70	4,073
Accumulated deficit	(5,612)	(10,131)
Total stockholders' equity	19,602	19,586
Commitments and contingencies (note 20)		
Total liabilities and stockholders' equity	$41,903	45,649

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
	amounts in millions, except per share amounts		
Revenue:			
Net retail sales	$ 8,079	7,802	7,326
Communications and programming services	2,005	1,621	1,287
	10,084	9,423	8,613
Operating costs and expenses:			
Cost of sales	5,224	4,925	4,565
Operating	2,126	1,920	1,600
Selling, general and administrative, including stock-based compensation (note 3)	1,202	942	732
Depreciation	192	163	119
Amortization	518	512	463
Impairment of long-lived assets (note 11)	1,569	223	113
	10,831	8,685	7,592
Operating income (loss)	(747)	738	1,021
Other income (expense):			
Interest expense	(719)	(641)	(680)
Dividend and interest income	174	321	214
Share of earnings (losses) of affiliates, net (note 8)	(838)	22	91
Realized and unrealized gains (losses) on financial instruments, net (note 10)	(34)	1,269	(279)
Gains on dispositions, net (notes 7 and 8)	3,679	646	607
Other than temporary declines in fair value of investments (note 7)	(441)	(33)	(4)
Gain on early extinguishment of debt (note 12)	240	—	—
Other, net	(71)	(1)	18
	1,990	1,583	(33)
Earnings from continuing operations before income taxes and minority interest	1,243	2,321	988
Income tax benefit (expense) (note 13)	2,280	(321)	(252)
Minority interests in earnings of subsidiaries	(44)	(35)	(27)
Earnings from continuing operations	3,479	1,965	709
Earnings from discontinued operations, net of taxes (note 5)	—	149	220
Cumulative effect of accounting change, net of taxes (note 3)	—	—	(89)
Net earnings	$ 3,479	2,114	840
Net earnings (loss):			
Liberty Capital common stock	$ (524)	—	—
Liberty Entertainment common stock	(616)	—	—
Liberty Interactive common stock	(781)	441	486
Old Liberty Capital common stock	5,402	1,673	260
Liberty Series A and Series B common stock	—	—	94
Inter-group eliminations	(2)	—	—
	$ 3,479	2,114	840

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

Years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
	amounts in millions, except per share amounts		
Basic earnings (loss) from continuing operations per common share (note 3):			
Series A and Series B Liberty Capital common stock	$ (4.64)	—	—
Series A and Series B Liberty Entertainment common stock	$ (1.19)	—	—
Series A and Series B Liberty Interactive common stock	$ (1.31)	.70	.73
Old Series A and Series B Liberty Capital common stock	$ 41.88	11.55	.24
Liberty Series A and Series B common stock	$ —	—	.07
Basic net earnings (loss) per common share (note 3):			
Series A and Series B Liberty Capital common stock	$ (4.64)	—	—
Series A and Series B Liberty Entertainment common stock	$ (1.19)	—	—
Series A and Series B Liberty Interactive common stock	$ (1.31)	.70	.73
Old Series A and Series B Liberty Capital common stock	$ 41.88	12.67	1.86
Liberty Series A and Series B common stock	$ —	—	.03
Diluted earnings (loss) from continuing operations per common share (note 3):			
Series A and Series B Liberty Capital common stock	$ (4.64)	—	—
Series A and Series B Liberty Entertainment common stock	$ (1.18)	—	—
Series A and Series B Liberty Interactive common stock	$ (1.31)	.69	.73
Old Series A and Series B Liberty Capital common stock	$ 41.55	11.46	.24
Liberty Series A and Series B common stock	$ —	—	.07
Diluted net earnings (loss) per common share (note 3):			
Series A and Series B Liberty Capital common stock	$ (4.64)	—	—
Series A and Series B Liberty Entertainment common stock	$ (1.18)	—	—
Series A and Series B Liberty Interactive common stock	$ (1.31)	.69	.73
Old Series A and Series B Liberty Capital common stock	$ 41.55	12.58	1.86
Liberty Series A and Series B common stock	$ —	—	.03

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

Years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
	amounts in millions		
Net earnings	$ 3,479	2,114	840
Other comprehensive earnings (loss), net of taxes (note 18):			
Foreign currency translation adjustments	(46)	95	110
Unrealized holding gains (losses) arising during the period	(812)	(1,556)	2,605
Recognition of previously unrealized gains on available-for-sale securities, net	(2,000)	(375)	(185)
Share of other comprehensive earnings of equity affiliates	(43)	3	1
Other	(62)	(46)	—
Other comprehensive earnings (loss)	(2,963)	(1,879)	2,531
Comprehensive earnings	$ 516	235	3,371
Comprehensive earnings (loss):			
Liberty Capital common stock	$ (535)	—	—
Liberty Entertainment common stock	(649)	—	—
Liberty Interactive common stock	(1,114)	100	829
Old Liberty Capital common stock	2,816	135	1,787
Liberty Series A and Series B common stock	—	—	755
Inter-group eliminations	(2)	—	—
	$ 516	235	3,371

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
	amounts in millions (see note 4)		
Cash flows from operating activities:			
Net earnings	$ 3,479	2,114	840
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Earnings from discontinued operations	—	(149)	(220)
Cumulative effect of accounting change	—	—	89
Depreciation and amortization	710	675	582
Impairment of long-lived assets	1,569	223	113
Stock-based compensation	50	93	67
Cash payments for stock-based compensation	(24)	(40)	(115)
Noncash interest expense	59	9	108
Share of losses (earnings) of affiliates, net	838	(22)	(91)
Realized and unrealized losses (gains) on financial instruments, net	34	(1,269)	279
Gains on disposition of assets, net	(3,679)	(646)	(607)
Other than temporary declines in fair value of investments	441	33	4
Minority interests in earnings of subsidiaries	44	35	27
Deferred income tax expense (benefit)	(2,561)	120	(465)
Other noncash charges (credits), net	(80)	141	44
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions:			
Current assets	(180)	(436)	(302)
Payables and other current liabilities	(56)	277	660
Net cash provided by operating activities	644	1,158	1,013
Cash flows from investing activities:			
Cash proceeds from dispositions	43	495	1,322
Proceeds from origination of financial instruments	—	—	59
Proceeds from settlement of financial instruments	78	75	101
Cash received in exchange transactions	463	1,154	—
Cash paid for acquisitions, net of cash acquired	(77)	(348)	(1,207)
Investments in and loans to cost and equity investees	(2,568)	(159)	(235)
Investment in special purpose entity	—	(750)	—
Capital expenditures	(203)	(316)	(278)
Net sales (purchases) of short term investments	(25)	34	287
Net decrease (increase) in restricted cash	383	(882)	—
Other investing activities, net	(71)	(36)	66
Net cash provided (used) by investing activities	(1,977)	(733)	115
Cash flows from financing activities:			
Borrowings of debt	5,190	1,869	3,229
Repayments of debt	(2,992)	(498)	(2,191)
Repurchases of Liberty common stock	(537)	(2,529)	(954)
Settlement of financial instruments	(346)	—	25
Contribution from minority owner	—	751	—
Other financing activities, net	1	1	(45)
Net cash provided (used) by financing activities	1,316	(406)	64
Effect of foreign currency exchange rates on cash	17	8	18
Net cash provided by (to) discontinued operations:			
Cash provided by operating activities	—	8	62
Cash used by investing activities	—	(9)	(67)
Cash provided by financing activities	—	—	6
Change in available cash held by discontinued operations	—	2	—
Net cash provided by discontinued operations	—	1	1
Net increase in cash and cash equivalents	—	28	1,211
Cash and cash equivalents at beginning of year	3,135	3,107	1,896
Cash and cash equivalents at end of year	$ 3,135	3,135	3,107

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2008, 2007 and 2006

		Common stock													
		Liberty Capital		Liberty Entertainment		Liberty Interactive		Old Liberty Capital							
	Preferred stock	Series A	Series B	Series A	Series B	Series A	Series B	Series A	Series B	Series A	Series B	Additional paid-in capital	Accumulated other comprehensive earnings	Accumulated deficit	Total stockholders' equity
	amounts in millions														
Balance at January 1, 2006	$—	—	—	—	—	—	—	—	—	27	1	28,949	3,421	(13,278)	19,120
Net earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	840	840
Other comprehensive earnings	—	—	—	—	—	—	—	—	—	—	—	—	2,531	—	2,531
Distribution of Liberty Capital and Liberty Interactive common stock to stockholders (note 2)	—	—	—	—	—	7	—	1	—	(27)	(1)	20	—	—	—
Stock compensation	—	—	—	—	—	—	—	—	—	—	—	62	—	—	62
Issuance of Series A Liberty Interactive common stock for acquisition	—	—	—	—	—	—	—	—	—	—	—	36	—	—	36
Series A Liberty Interactive stock repurchases	—	—	—	—	—	(1)	—	—	—	—	—	(953)	—	—	(954)
Other	—	—	—	—	—	—	—	—	—	—	—	(2)	—	—	(2)
Balance at December 31, 2006	—	—	—	—	—	6	—	1	—	—	—	28,112	5,952	(12,438)	21,633
Net earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	2,114	2,114
Other comprehensive loss	—	—	—	—	—	—	—	—	—	—	—	—	(1,879)	—	(1,879)
Cumulative effects of accounting changes (note 3)	—	—	—	—	—	—	—	—	—	—	—	—	—	193	193
Issuance of common stock upon exercise of stock options	—	—	—	—	—	—	—	—	—	—	—	35	—	—	35
Stock compensation	—	—	—	—	—	—	—	—	—	—	—	24	—	—	24
Series A Liberty Interactive stock repurchases	—	—	—	—	—	—	—	—	—	—	—	(1,224)	—	—	(1,224)
Series A Liberty Capital stock repurchases	—	—	—	—	—	—	—	—	—	—	—	(1,305)	—	—	(1,305)
Other	—	—	—	—	—	—	—	—	—	—	—	(5)	—	—	(5)
Balance at December 31, 2007	—	—	—	—	—	6	—	1	—	—	—	25,637	4,073	(10,131)	19,586
Net earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	3,479	3,479
Other comprehensive loss	—	—	—	—	—	—	—	—	—	—	—	—	(2,963)	—	(2,963)
Cumulative effects of accounting changes (note 3)	—	—	—	—	—	—	—	—	—	—	—	—	(1,040)	1,040	—
Distribution of Liberty Entertainment and Liberty Capital common stock to stockholders (note 2)	—	1	—	5	—	—	—	(1)	—	—	—	(5)	—	—	—
Stock compensation	—	—	—	—	—	—	—	—	—	—	—	35	—	—	35
Series A Liberty Interactive stock repurchases	—	—	—	—	—	—	—	—	—	—	—	(75)	—	—	(75)
Series A Liberty Capital stock repurchases	—	—	—	—	—	—	—	—	—	—	—	(462)	—	—	(462)
Other	—	—	—	—	—	—	—	—	—	—	—	2	—	—	2
Balance at December 31, 2008	$—	1	—	5	—	6	—	—	—	—	—	25,132	70	(5,612)	19,602

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Media Corporation and its controlled subsidiaries (collectively, "Liberty" or the "Company" unless the context otherwise requires). All significant intercompany accounts and transactions have been eliminated in consolidation.

Liberty, through its ownership of interests in subsidiaries and other companies, is primarily engaged in the video and on-line commerce, media, communications and entertainment industries in North America, South America, Europe and Asia.

(2) Tracking Stocks

On May 9, 2006, Liberty completed a restructuring (the "Restructuring") pursuant to which the Company was organized as a new holding company. In the Restructuring, Liberty became the new publicly traded parent company of Liberty Media LLC (formerly known as Liberty Media Corporation, "Old Liberty"). In the Restructuring, each holder of Old Liberty's common stock received for each share of Old Liberty's Series A common stock held immediately prior to the Restructuring, 0.25 of a share of the Company's Series A Liberty Interactive common stock and 0.05 of a share of the Company's Series A Liberty Capital common stock, and for each share of Old Liberty's Series B common stock held immediately prior to the Restructuring, 0.25 of a share of the Company's Series B Liberty Interactive common stock and 0.05 of a share of the Company's Series B Liberty Capital common stock, in each case, with cash in lieu of any fractional shares. Liberty is the successor reporting company to Old Liberty.

Each tracking stock issued in the Restructuring is intended to track and reflect the economic performance of one of two groups, the Interactive Group and the Capital Group, respectively.

On March 3, 2008, Liberty completed a reclassification (the "Reclassification") of its Liberty Capital common stock (herein referred to as "Old Liberty Capital common stock") whereby each share of Old Series A Liberty Capital common stock was reclassified into four shares of Series A Liberty Entertainment common stock and one share of new Series A Liberty Capital common stock, and each share of Old Series B Liberty Capital common stock was reclassified into four shares of Series B Liberty Entertainment common stock and one share of new Series B Liberty Capital common stock. The Liberty Entertainment common stock is intended to track and reflect the economic performance of the Entertainment Group. The Reclassification did not change the businesses, assets and liabilities attributed to the Interactive Group.

Tracking stock is a type of common stock that the issuing company intends to reflect or "track" the economic performance of a particular business or "group," rather than the economic performance of the company as a whole. While the Interactive Group, the Entertainment Group and the Capital Group have separate collections of businesses, assets and liabilities attributed to them, no group is a separate legal entity and therefore cannot own assets, issue securities or enter into legally binding agreements. Holders of tracking stocks have no direct claim to the group's stock or assets and are not represented by separate boards of directors. Instead, holders of tracking stock are stockholders of the parent corporation, with a single board of directors and subject to all of the risks and liabilities of the parent corporation.

The term "Interactive Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which Liberty has attributed to that group. The assets and businesses Liberty has attributed to the Interactive Group are those engaged in video and on-line commerce, and include its interests in QVC, Inc. ("QVC"), Provide Commerce, Inc. ("Provide"), Backcountry.com, Inc. ("Backcountry"), Bodybuilding.com, LLC ("Bodybuilding"), BuySeasons, Inc. ("BuySeasons"), Expedia, Inc. ("Expedia"), HSN, Inc. ("HSN"), Interval Leisure Group, Inc. ("Interval"), Ticketmaster Entertainment, Inc. ("Ticketmaster"), Tree.com, Inc. ("Lending Tree") and IAC/InterActiveCorp ("IAC"). In addition, Liberty has attributed $2,263 million principal amount (as of December 31, 2008) of its public debt to the Interactive Group. The Interactive Group will also include such other businesses, assets and liabilities that Liberty's board of directors may in the future determine to attribute to the Interactive Group, including such other businesses and assets as Liberty may acquire for the Interactive Group. Similarly, the term "Entertainment Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which Liberty has attributed to that group and which were previously attributed to the Capital Group. The Entertainment Group focuses primarily on video programming, communications businesses and the direct-to-home satellite distribution business and includes Liberty's ownership interest in The DIRECTV Group, Inc. ("DIRECTV"), as well as an equity collar on 98.75 million of shares of DIRECTV common stock and $1,981 million of borrowings against the put value of such equity collar. Liberty has also attributed to the Entertainment Group its subsidiaries, Starz Entertainment, LLC ("Starz Entertainment"), FUN Technologies, Inc. ("FUN"), three regional sports television networks ("Liberty Sports Group") and PicksPal, Inc. and equity interests in GSN, LLC and WildBlue Communications. In addition, Liberty has attributed $633 million of corporate cash to the Entertainment Group. The Entertainment Group will also include such other businesses, assets and liabilities that Liberty's board of directors may in the future determine to attribute to the Entertainment Group, including such other businesses as Liberty may acquire for the Entertainment Group.

The term "Capital Group" also does not represent a separate legal entity, rather it represents all of Liberty's businesses, assets and liabilities other than those which have been attributed to the Interactive Group or the Entertainment Group. Subsequent to the Reclassification, the assets and businesses attributed to the Capital Group include Liberty's subsidiaries: Starz Media, LLC ("Starz Media"), Atlanta National League Baseball Club, Inc. ("ANLBC"), Leisure Arts, Inc. ("Leisure Arts"), TruePosition, Inc. ("TruePosition") and WFRV and WJMN Television Station, Inc. ("WFRV TV Station"); and its interests in Time Warner Inc. and Sprint Nextel Corporation. In addition, Liberty has attributed $1,496 million of cash, including subsidiary cash, $104 million of short-term marketable securities and $4,815 million principal amount (as of December 31, 2008) of its exchangeable senior debentures and other parent debt to the Capital Group. The Capital Group will also include such other businesses, assets and liabilities that Liberty's board of directors may in the future determine to attribute to the Capital Group, including such other businesses and assets as Liberty may acquire for the Capital Group.

See Exhibit 99.1 to this Annual Report on Form 10-K for unaudited attributed financial information for Liberty's tracking stock groups.

Split Off Transaction

During the fourth quarter of 2008, the Board of Directors of Liberty approved a plan to redeem a portion of the outstanding shares of Liberty's Entertainment Group tracking stock for all of the outstanding shares of a newly formed subsidiary of Liberty, Liberty Entertainment, Inc. ("LEI"), (the "Redemption"). The Redemption and resulting separation of LEI from Liberty are referred to as the "Split Off."

If the Redemption is completed, Liberty will redeem 90% of the outstanding shares of each series of Liberty Entertainment common stock for 100% of the outstanding shares of the same series of LEI, with cash in lieu of fractional shares, in each case, as of a date to be determined by the board of Liberty (the "Redemption Date"). Immediately following the Redemption Date, the holders of Liberty Entertainment common stock will own 100% of the outstanding equity of LEI. At the time of the Split Off, LEI will hold Liberty's interests in DIRECTV (and related collars and debt), Liberty Sports Group, FUN, PicksPal and GSN. In addition Liberty will transfer up to $300 million in cash to LEI prior to the Split Off. The Split Off is conditioned on, among other matters, receipt of stockholder approval and receipt of a private letter ruling from the IRS and a tax opinion from tax counsel and is expected to occur in the second quarter of 2009. The Split Off will be accounted for at historical cost due to the fact that the LEI common stock is to be distributed pro rata to holders of Liberty Entertainment tracking stock.

Subsequent to the Split Off, Liberty Entertainment Group will be comprised of Liberty's interests in Starz Entertainment and WildBlue Communications and cash.

(3) Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents consist of investments which are readily convertible into cash and have maturities of three months or less at the time of acquisition.

Receivables

Receivables are reflected net of an allowance for doubtful accounts. Such allowance aggregated $105 million and $80 million at December 31, 2008 and 2007, respectively. A summary of activity in the allowance for doubtful accounts is as follows:

	Balance beginning of year	Additions: Charged to expense	Additions: Acquisitions	Deductions—write-offs	Balance end of year
	amounts in millions				
2008	$80	67	1	(43)	105
2007	$72	41	1	(34)	80
2006	$66	27	14	(35)	72

Inventory

Inventory, consisting primarily of products held for sale, is stated at the lower of cost or market. Cost is determined by the average cost method, which approximates the first-in, first-out method.

Program Rights

Program rights are amortized on a film-by-film basis over the anticipated number of exhibitions. Program rights payable are initially recorded at the estimated cost of the programs when the film is available for airing.

Investment in Films and Television Programs

Investment in films and television programs generally includes the cost of proprietary films and television programs that have been released, completed and not released, in production, and in development or pre-production. Capitalized costs include the acquisition of story rights, the development of stories, production labor, postproduction costs and allocable overhead and interest costs. Investment in films and television programs is stated at the lower of unamortized cost or estimated fair value on an individual film basis. Investment in films and television programs is amortized using the individual-film-forecast method, whereby the costs are charged to expense and participation and residual costs are accrued based on the proportion that current revenue from the films bear to an estimate of total revenue anticipated from all markets (ultimate revenue). Ultimate revenue estimates generally may not exceed ten years following the date of initial release or from the date of delivery of the first episode for episodic television series.

Estimates of ultimate revenue involve uncertainty and it is therefore possible that reductions in the carrying value of investment in films and television programs may be required as a consequence of changes in management's future revenue estimates.

Investment in films and television programs in development or pre-production is periodically reviewed to determine whether they will ultimately be used in the production of a film. Costs of films in development or pre-production are charged to expense if the project is abandoned, or if the film has not been set for production within three years from the time of the first capitalized transaction.

The investment in films and television programs is reviewed for impairment on a title-by-title basis when an event or change in circumstances indicates that a film should be assessed. If the estimated fair value of a film is less than its unamortized cost, then the excess of unamortized costs over the estimated fair value is charged to expense.

Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale (''AFS'') and are carried at fair value generally based on quoted market prices. Effective January 1, 2008, Liberty adopted the provisions of Statement of Financial Accounting Standards No. 159, *''The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115''* (''Statement 159''). Statement 159 permits entities to choose to measure many financial instruments, such as AFS securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the entity's statement of operations. Previously under Statement of Financial Accounting Standards No. 115 (''Statement 115''), entities were required to recognize changes in fair value of AFS securities in the balance sheet in accumulated other comprehensive earnings. Liberty has entered into economic hedges for many of its non-strategic AFS securities (although such instruments are not accounted for as fair value hedges by the Company). Changes in the fair value of these economic hedges are reflected in Liberty's statement of operations as unrealized gains (losses). In order to better match the changes in fair value of the subject AFS securities and the changes in fair value of the corresponding economic hedges in the Company's financial statements, Liberty has elected to apply the provisions of Statement 159 to those of its AFS securities ("Statement 159 Securities") which it considers to be non-strategic. Accordingly, changes in the fair value of Statement 159 Securities, as determined by quoted market prices, are reported in realized and unrealized gain (losses) on financial instruments in the accompanying December 31, 2008 consolidated statement of operations. The amount of unrealized gains related to the Statement 159 Securities and included in accumulated other comprehensive earnings in the Company's balance sheet as of the date of adoption of Statement 159 aggregated $1,040 million and has been reclassified to accumulated deficit. The total value of AFS securities for which the Company has elected the fair value option aggregated $2,089 million as of December 31, 2008. Liberty continues to account for its investment in IAC/InterActiveCorp under the provisions of Statement 115.

Other investments in which the Company's ownership interest is less than 20% and are not considered marketable securities are carried at cost.

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliate as they occur rather than as dividends or other distributions are received. Losses are limited to the extent of the Company's investment in, advances to and commitments for the investee. In the event the Company is unable to obtain accurate financial information from an equity affiliate in a timely manner, the Company records its share of earnings or losses of such affiliate on a lag. The Company's share of net earnings or loss of affiliates also includes any other than temporary declines in fair value recognized during the period.

Changes in the Company's proportionate share of the underlying equity of a subsidiary or equity method investee, which result from the issuance of additional equity securities by such subsidiary or equity investee ("SAB 51 Gain"), are recognized as increases or decreases in stockholders' equity.

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. The primary factors the Company considers in its determination are the length of time that the fair value of the investment is below the Company's carrying value; the severity of the decline; and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other than temporary, the cost basis of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of a public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. The Company's assessment of the foregoing factors involves a high degree of judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. Writedowns for cost investments and AFS securities accounted for under Statement 115 are included in the consolidated statements of operations as other than temporary declines in fair values of investments. Writedowns for equity method investments are included in share of earnings (losses) of affiliates.

Derivative Instruments and Hedging Activities

The Company uses various derivative instruments including equity collars, bond swaps and interest rate swaps to manage fair value and cash flow risk associated with many of its investments and some of its variable rate debt. Liberty's derivative instruments are executed with counterparties who are well known major financial institutions. While Liberty believes these derivative instruments effectively manage the risks highlighted above, they are subject to counterparty credit risk. Counterparty credit risk is the risk that the counterparty is unable to perform under the terms of the derivative instrument upon settlement of the derivative instrument. To protect itself against credit risk associated with these counterparties the Company generally:

- executes its derivative instruments with several different counterparties, and
- executes equity derivative instrument agreements which contain a provision that requires the counterparty to post the "in the money" portion of the derivative instrument into a cash collateral account for the Company's benefit, if the respective counterparty's credit rating for its senior unsecured debt were to reach certain levels, generally a rating that is below Standard & Poor's rating of A- and/or Moody's rating of A3.

Due to the importance of these derivative instruments to its risk management strategy, Liberty actively monitors the creditworthiness of each of its counterparties. Based on its analysis, the Company currently considers nonperformance by any of its counterparties to be unlikely.

Liberty accounts for its derivatives pursuant to Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" ("Statement 133") and related amendments and interpretations. All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings and are recognized in the statement of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. The Company has entered into several interest rate swap agreements to mitigate the cash flow risk associated with interest payments related to certain of its variable rate debt. Through November 2008, certain of these interest rate swap arrangements were designated as cash flow hedges. The Company assessed the effectiveness of its interest rate swaps using the hypothetical derivative method. Hedge ineffectiveness had no significant impact on earnings for the years ended December 31, 2008 and 2007. In December 2008, the interest rate swaps were determined to be ineffective due to changes in the interest rates on the underlying debt and no longer qualify as cash flow hedges. None of the Company's other derivatives have been designated as hedges.

The fair value of the Company's equity collars and other similar derivative instruments is estimated using the Black-Scholes model. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. The Company obtains volatility rates from pricing services based on the expected volatility of the underlying security over the remaining term of the derivative instrument. A discount rate is obtained at the inception of the derivative instrument and updated each reporting period based on the Company's estimate of the discount rate at which it could currently settle the derivative instrument. The Company considers its own credit risk as well as the credit risk of its counterparties in estimating the discount rate. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of derivative instruments may differ materially from these estimates.

Effective January 1, 2007, Liberty adopted Statement of Financial Accounting Standards No. 155, *"Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140"* ("Statement 155"). Statement 155, among other things, amends Statement 133 and permits fair value remeasurement of hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Under Statement 133, Liberty reported the fair value of the call option feature of its exchangeable senior debentures separate from the long-term debt. The long-term debt portion was reported as the difference between the face amount of the debenture and the fair value of the call option feature on the date of issuance and was accreted through interest expense to its face amount over the expected term of the debenture. Pursuant to the provisions of Statement 155, Liberty accounts for its exchangeable senior debentures at fair value rather than bifurcating such instruments into a debt instrument and a derivative instrument. Decreases in the fair value of the exchangeable debentures are included in realized and unrealized gains on financial instruments in the accompanying consolidated statements of operations and aggregated $1,509 million and $541 million for the years ended December 31, 2008 and 2007, respectively.

The impact—increase/(decrease)—on Liberty's January 1, 2007 balance sheet of the adoption of Statement 155 is as follows (amounts in millions):

Other assets	$ (47)
Long-term financial instrument liabilities	$(1,280)
Long-term debt	$ 1,848
Deferred income tax liabilities	$ (234)
Accumulated deficit	$ 381

Property and Equipment

Property and equipment, including significant improvements, is stated at cost. Depreciation is computed using the straight-line method using estimated useful lives of 3 to 20 years for support equipment and 10 to 40 years for buildings and improvements.

Intangible Assets

The Company accounts for its intangible assets pursuant to Statement of Financial Accounting Standards No. 142, "*Goodwill and Other Intangible Assets*" ("Statement 142"). Statement 142 requires that goodwill and other intangible assets with indefinite useful lives (collectively, "indefinite lived intangible assets") not be amortized, but instead be tested for impairment at least annually. Equity method goodwill is also not amortized, but is considered for impairment pursuant to Accounting Principles Board Opinion No. 18. Statement 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*" ("Statement 144").

Statement 142 requires the Company to perform an annual assessment of whether there is an indication that goodwill is impaired. In performing this assessment, Statement 142 requires that the estimated fair value of a reporting unit be compared to its carrying value, including goodwill (the "Step 1 Test"). Developing estimates of fair value requires significant judgments, including making assumptions about appropriate discount rates, perpetual growth rates, relevant comparable market multiples, public trading prices and the amount and timing of expected future cash flows. The cash flows employed in Liberty's valuation analysis are based on management's best estimates considering current marketplace factors and risks as well as assumptions of growth rates in future years. There is no assurance that actual results in the future will approximate these forecasts. For those reporting units whose carrying value exceeds the fair value, a second test is required to measure the impairment loss (the "Step 2 Test"). In the Step 2 Test, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit with any residual value being allocated to goodwill. The difference between such allocated amount and the carrying value of the goodwill is recorded as an impairment charge.

Statement 142 requires the Company to consider equity method affiliates as separate reporting units. As a result, a portion of the Company's goodwill balance is allocated to various reporting units which include a single equity method investment as its only asset. To the extent that all or a portion of an equity method investment which is part of a reporting unit containing allocated goodwill is disposed of in the future, the allocated portion of goodwill will be relieved and included in the calculation of the gain or loss on disposal.

Impairment of Long-lived Assets

Statement 144 requires that the Company periodically review the carrying amounts of its property and equipment and its intangible assets (other than goodwill and indefinite-lived intangibles) to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of assets. Accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

Minority Interests

Recognition of minority interests' share of losses of subsidiaries is generally limited to the amount of such minority interests' allocable portion of the common equity of those subsidiaries. Further, the minority interests' share of losses is not recognized if the minority holders of common equity of subsidiaries have the right to cause the Company to repurchase such holders' common equity.

Foreign Currency Translation

The functional currency of the Company is the United States ("U.S.") dollar. The functional currency of the Company's foreign operations generally is the applicable local currency for each foreign subsidiary. Assets and liabilities of foreign subsidiaries are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in stockholders' equity.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the accompanying consolidated statements of operations and comprehensive earnings as unrealized (based on the applicable period-end exchange rate) or realized upon settlement of the transactions.

Revenue Recognition

Revenue is recognized as follows:

- Revenue from retail sales is recognized at the time of shipment to customers. An allowance for returned merchandise is provided as a percentage of sales based on historical experience. The total reduction in sales due to returns for the years ended December 31, 2008, 2007 and 2006 aggregated $1,760 million, $1,651 million and $1,554 million, respectively. Sales tax collected from customers on retail sales is recorded on a net basis and is not included in revenue.
- Programming revenue is recognized in the period during which programming is provided, pursuant to affiliation agreements.
- Revenue from sales and licensing of software and related service and maintenance is recognized pursuant to Statement of Position No. 97-2, "*Software Revenue Recognition*." For multiple element contracts with vendor specific objective evidence, the Company recognizes revenue for each specific element when the earnings process is complete. If vendor specific objective evidence does not exist, revenue is deferred and recognized on a straight-line basis over the remaining term of the maintenance period after all other elements have been delivered.
- Revenue relating to proprietary films is recognized in accordance with Statement of Position (SOP) 00-02, *Accounting by Producers or Distributors of Films.* Revenue from the theatrical release of feature films is recognized at the time of exhibition based on the Company's participation in box office receipts. Revenue from television licensing is recognized when the film or program is complete in accordance with the terms of the arrangement, the license period has begun and is available for telecast or exploitation.

Cost of Sales

Cost of sales primarily includes actual product cost, provision for obsolete inventory, buying allowances received from suppliers, shipping and handling costs and warehouse costs.

Advertising Costs

Advertising costs generally are expensed as incurred. Advertising expense aggregated $392 million, $169 million and $112 million for the years ended December 31, 2008, 2007 and 2006, respectively. Co-operative marketing costs are recognized as advertising expense to the extent an identifiable benefit is received and fair value of the benefit can be reasonably measured. Otherwise, such costs are recorded as a reduction of revenue.

Stock-Based Compensation

FASB Statement 123R

As more fully described in note 16, the Company has granted to its directors, employees and employees of its subsidiaries options and stock appreciation rights ("SARs") to purchase shares of Liberty common stock (collectively, "Awards"). In addition, QVC had granted combination stock options/SARs ("QVC Awards") to certain of its employees. The Company accounts for stock-based compensation pursuant to Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment*" ("Statement 123R"). Statement 123R generally requires companies to measure the cost of employee services received in exchange for an Award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the Award, and to recognize that cost over the period during which the employee is required to provide service (usually the vesting period of the Award). Statement 123R also requires companies to measure the cost of employee services received in exchange for an Award of liability instruments (such as stock appreciation rights that will be settled in cash) based on the current fair value of the Award, and to remeasure the fair value of the Award at each reporting date.

The Company adopted Statement 123R effective January 1, 2006. In connection with such adoption, the Company recorded an $89 million transition adjustment loss, which is net of related income taxes of $31 million. Under Statement 123R, the QVC Awards were required to be bifurcated into a liability award and an equity award. Previously no liability was recorded. The transition adjustment primarily represents the fair value of the liability portion of the QVC Awards at January 1, 2006. The transition adjustment is reflected in the accompanying consolidated statement of operations as the cumulative effect of accounting change.

Included in selling, general and administrative expenses in the accompanying consolidated statements of operations are the following amounts of stock-based compensation (amounts in millions):

Years ended:	
December 31, 2008	$50
December 31, 2007	$93
December 31, 2006	$67

As of December 31, 2008, the total unrecognized compensation cost related to unvested Liberty equity Awards was approximately $90 million. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 2.1 years.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value amounts and income tax bases of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards. The deferred tax assets and liabilities are calculated using enacted tax rates in effect for each taxing jurisdiction in which the company operates for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if the Company believes it more likely than not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of an enacted change in tax rates is recognized in income in the period that includes the enactment date.

Effective January 1, 2007, Liberty adopted FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109"* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In instances where the Company has taken or expects to take a tax position in its tax return and the Company believes it is more likely than not that such tax position will be upheld by the relevant taxing authority, the Company may record a benefit for such tax position in its consolidated financial statements.

The impact—increase/(decrease)—on Liberty's balance sheet of the January 1, 2007 adoption of FIN 48 is as follows (amounts in millions):

Tax liabilities (including interest and penalties)	$(634)
Goodwill	$ (31)
Deferred tax liabilities	$ 36
Accumulated deficit	$(574)
Other assets	$ 7

When the tax law requires interest to be paid on an underpayment of income taxes, the Company recognizes interest expense from the first period the interest would begin accruing according to the relevant tax law. Such interest expense is included in interest expense in the accompanying consolidated statements of operations. Any accrual of penalties related to underpayment of income taxes on uncertain tax positions is included in other income (expense) in the accompanying consolidated statements of operations.

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented.

Liberty Series A and Series B Common Stock

The basic EPS calculation is based on 2,803 million weighted average outstanding shares of Liberty common stock for the period from January 1, 2006 to May 9, 2006. The diluted EPS calculation for the period from January 1, 2006 to May 9, 2006 includes 5 million dilutive securities. However, due to the relative insignificance of these dilutive securities, their inclusion does not impact the EPS amount as reported in the accompanying consolidated statement of operations.

The cumulative effect of accounting change per common share for the period from January 1, 2006 to May 9, 2006 was a loss of $0.03.

Earnings from discontinued operations per common share was less than $.01 for 2006.

Old Series A and Series B Liberty Capital Common Stock

Old Liberty Capital basic EPS for (i) the period from January 1, 2008 to the Reclassification, (ii) the year ended December 31, 2007 and (iii) the period from the Restructuring to December 31, 2006 was computed by dividing the net earnings attributable to the Capital Group by the weighted average outstanding shares of Old Liberty Capital common stock for the period (129 million, 132 million and 140 million, respectively). Fully diluted EPS for the two months in 2008 and for the year ended December 31, 2007 includes 1 million common stock equivalents. Due to the relative insignificance of the dilutive securities for the period from the Restructuring to December 31, 2006, their inclusion does not impact the EPS amount.

Earnings from discontinued operations per common share for the year ended December 31, 2007 and for the period from the Restructuring to December 31, 2006 is $1.13 and $1.62, respectively.

Series A and Series B Liberty Interactive Common Stock

Liberty Interactive basic EPS for the years ended December 31, 2008 and 2007 and for the period from the Restructuring to December 31, 2006 was computed by dividing the net earnings attributable to the Interactive Group by the weighted average outstanding shares of Liberty Interactive common stock for the period (594 million, 634 million and 670 million, respectively). Fully diluted EPS for the year ended December 31, 2007 includes 2 million common stock equivalents. Due to the relative insignificance of the dilutive securities for the year ended December 31, 2008 and for the period from the Restructuring to December 31, 2006, their inclusion does not impact the EPS amount. Excluded from diluted EPS for the year ended December 31, 2008 are approximately 34 million potential common shares because their inclusion would be anti-dilutive.

Series A and Series B Liberty Entertainment Common Stock

Liberty Entertainment basic EPS for the period from the Reclassification to December 31, 2008 was computed by dividing the net earnings attributable to the Entertainment Group by the weighted average outstanding shares of Liberty Entertainment common stock for the period (517 million). Fully diluted EPS for such period includes 3 million common stock equivalents. Excluded from diluted EPS for the year ended December 31, 2008 are approximately 21 million potential common shares because their inclusion would be anti-dilutive.

Series A and Series B Liberty Capital Common Stock

Liberty Capital basic and fully diluted EPS for the period from the Reclassification to December 31, 2008 was computed by dividing the net earnings attributable to the Capital Group by the weighted average outstanding shares of Liberty Capital common stock for the period (113 million). Excluded from diluted EPS for the year ended December 31, 2008 are approximately 4 million potential common shares because their inclusion would be anti-dilutive.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Liberty considers (i) fair value measurements, (ii) its accounting for income taxes, (iii) its assessment of other than temporary declines in value of its investments and (iv) its estimates of retail related adjustments and allowances to be its most significant estimates.

Liberty holds investments that are accounted for using the equity method. Liberty does not control the decision making process or business management practices of these affiliates. Accordingly, Liberty relies on management of these affiliates to provide it with accurate financial information prepared in accordance with GAAP that Liberty uses in the application of the equity method. In addition, Liberty relies on audit reports that are provided by the affiliates' independent auditors on the financial statements of such affiliates. The Company is not aware, however, of any errors in or possible misstatements of the financial information provided by its equity affiliates that would have a material effect on Liberty's consolidated financial statements.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *"Business Combinations"* ("Statement 141R"). Statement 141R replaces Statement of Financial Accounting Standards No. 141, *"Business Combinations"* ("Statement 141"), although it retains the fundamental requirement in Statement 141 that the acquisition method of accounting be used for all business combinations. Statement 141R establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree, (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase and (c) determines what information to disclose regarding the business combination. Statement 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year after December 15, 2008.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "*Noncontrolling Interests in Consolidated Financial Statements"* ("Statement 160"). Statement 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, commonly referred to as minority interest. Among other matters, Statement 160 requires (a) the noncontrolling interest be reported within equity in the balance sheet and (b) the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly presented in the statement of income. Statement 160 and EITF Topic 08-6 also require that SAB 51 Gains for subsidiaries be recorded in equity and SAB 51 Gains for equity affiliates be recorded in earnings. Statement 160 is effective for fiscal years beginning after December 15, 2008. Statement 160 is to be applied prospectively, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. Liberty expects that its adoption of Statement 160 in 2009 will impact the accounting for the purchase and sale and the presentation of the noncontrolling interests in its subsidiaries.

(4) Supplemental Disclosures to Consolidated Statements of Cash Flows

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Cash paid for acquisitions:			
Fair value of assets acquired	$ 89	365	1,494
Net liabilities assumed	(29)	(41)	(227)
Deferred tax liabilities	17	(4)	(48)
Minority interest	—	35	259
Exchange of cost investment	—	—	(235)
Common stock issued	—	(7)	(36)
Cash paid for acquisitions, net of cash acquired	$ 77	348	1,207
Available-for-sale securities exchanged for consolidated subsidiaries, equity investment and cash	$10,143	1,718	—
Cash paid for interest	$ 659	607	510
Cash paid for income taxes	$ 374	195	152

At December 31, 2008, Liberty's short-term marketable securities, which are included in other current assets, represent an investment in The Reserve Primary Fund (the "Primary Fund"), a money market fund that has suspended redemptions and is being liquidated. In mid-September, the net asset value of the Primary Fund decreased below $1 per share. Accordingly, Liberty recorded an $8 million loss to recognize its pro rata share of the estimated loss in this investment. Liberty has requested the redemption of its investment in the Primary Fund, and expects distributions will occur as the Primary Fund's assets mature or are sold. While Liberty expects to receive substantially all of its current holdings in the Primary Fund, it cannot predict when this will occur or the amount it will receive. Accordingly, Liberty has reclassified its investment in the Primary Fund of $104 million from cash and cash equivalents to short-term investments in the accompanying consolidated balance sheet as of December 31, 2008.

(5) Discontinued Operations

Sale of OpenTV Corp.

On January 16, 2007, Liberty completed the sale of its controlling interest in OpenTV Corp. ("OPTV") to an unaffiliated third party for cash consideration of $132 million. Liberty recognized a pre-tax gain of $65 million upon consummation of the sale. Such gain is included in earnings from discontinued operations in the accompanying consolidated statement of operations. OPTV was attributed to the Capital Group.

Sale of Ascent Entertainment Group, Inc.

On April 4, 2007, Liberty consummated a transaction with an unaffiliated third party pursuant to which Liberty sold its 100% ownership interest in Ascent Entertainment Group, Inc. ("AEG") for $332 million in cash and 2.05 million shares of common stock of the buyer valued at approximately $50 million. Liberty recognized a pre-tax gain of $163 million upon consummation of the sale. Such gain is included in earnings from discontinued operations. AEG's primary operating subsidiary is On Command Corporation. AEG was attributed to the Capital Group.

The consolidated financial statements and accompanying notes of Liberty have been prepared reflecting OPTV and AEG as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of these subsidiaries have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operations, statements of comprehensive earnings and statements of cash flows and have been reported separately in such consolidated financial statements.

Certain combined statement of operations information for OPTV and AEG, which is included in earnings from discontinued operations, is as follows:

	Years ended December 31,	
	2007	2006
	amounts in millions	
Revenue	$ 59	335
Earnings (loss) before income taxes and minority interests	$160	(30)

(6) Assets and Liabilities Measured at Fair Value

Effective January 1, 2008, Liberty adopted Statement of Financial Accounting Standards No. 157, *"Fair Value Measurements"* ("Statement 157"). Statement 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. In February 2008, the FASB issued Staff Position No. 157-2, *"Effective Date of FASB Statement No. 157"* ("FSP 157-2"). FSP 157-2 delayed the effective date of Statement 157 for (i) non-financial assets and liabilities that are not remeasured at fair value on a recurring basis and (ii) fair value measurements required for impairment analysis of nonfinancial assets acquired in business combinations, goodwill, identifiable intangible assets and other long-lived assets. The provisions of FSP 157-2 are effective for the Company's fiscal year beginning January 1, 2009.

Statement 157 provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs, other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The Company's assets and liabilities measured at fair value are as follows:

		Fair Value Measurements at December 31, 2008 Using		
Description	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
		amounts in millions		
Available-for-sale securities	$2,828	2,609	219	—
Financial instrument assets	$2,485	—	2,485	—
Financial instrument liabilities	$ 742	392	350	—
Debt	$1,691	—	1,691	—

The Company uses the Black Scholes Model to estimate fair value for the majority of its Level 2 financial instrument assets and liabilities using observable inputs such as exchange-traded equity prices, risk-free interest rates, dividend yields and volatilities obtained from pricing services. For the Company's debt instruments reported at fair value, the Company gets quoted market prices from pricing services or from evidence of observable inputs, some of which may be obtained from third-party brokers. However, the Company does not believe such instruments are traded on "active markets," as defined in Statement 157. Accordingly, the debt instruments are reported in the foregoing table as Level 2 fair value.

Statement 157 requires the incorporation of a credit risk valuation adjustment in the Company's fair value measurements to estimate the impact of both its own nonperformance risk and the nonperformance risk of its counterparties. The Company estimates credit risk associated with its and its counterparties nonperformance primarily by using observable credit default swap rates for terms similar to those of the remaining life of the instrument, adjusted for any master netting arrangements or other factors that provide an estimate of nonperformance risk. These are Level 3 inputs. However, as the credit risk valuation adjustments were not significant, the Company continues to report its equity collars, interest rate swaps and put options as Level 2.

(7) Investments in Available-for-Sale Securities and Other Cost Investments

Investments in AFS securities, which are recorded at their respective fair market values, and other cost investments are summarized as follows:

	December 31, 2008	December 31, 2007
	amounts in millions	
Capital Group		
Time Warner Inc. ("Time Warner")(1)	$1,033	1,695
Sprint Nextel Corporation ("Sprint")(2)	160	1,150
Motorola, Inc. ("Motorola")(3)	328	1,187
Viacom, Inc.	145	333
Embarq Corporation(4)	157	216
Other AFS equity securities(5)	40	104
Other AFS debt securities	224	156
Other cost investments and related receivables	31	32
Total attributed Capital Group	2,118	4,873
Interactive Group		
IAC/InterActiveCorp ("IAC")	638	1,863
Other AFS securities	101	181
Total attributed Interactive Group	739	2,044
Entertainment Group		
News Corporation	—	10,647
Other	2	5
Total attributed Entertainment Group	2	10,652
Consolidated Liberty	$2,859	17,569

(1) Includes $91 million and $150 million of shares pledged as collateral for share borrowing arrangements at December 31, 2008 and 2007, respectively.

(2) Includes $17 million and $118 million of shares pledged as collateral for share borrowing arrangements at December 31, 2008 and 2007, respectively.

(3) Includes $230 million and $833 million of shares pledged as collateral for share borrowing arrangements at December 31, 2008 and 2007, respectively.

(4) Includes $16 million and $22 million of shares pledged as collateral for share borrowing arrangements at December 31, 2008 and 2007, respectively.

(5) Includes $38 million and $60 million of shares pledged as collateral for share borrowing arrangements at December 31, 2008 and 2007, respectively.

Time Warner

On May 17, 2007, Liberty completed a transaction (the "Time Warner Exchange") with Time Warner in which Liberty exchanged approximately 68.5 million shares of Time Warner common stock valued at $1,479 million for a subsidiary of Time Warner which held ANLBC, Leisure Arts and $984 million in cash. Liberty recognized a pre-tax gain of $582 million based on the difference between the fair value and the weighted average cost basis of the Time Warner shares exchanged.

CBS Corporation

On April 16, 2007, Liberty completed a transaction (the "CBS Exchange") with CBS Corporation pursuant to which Liberty exchanged all of its 7.6 million shares of CBS Class B common stock valued at $239 million for a subsidiary of CBS that held WFRV TV Station and approximately $170 million in cash. Liberty recognized a pre-tax gain of $31 million based on the difference between the fair value and the weighted average cost basis of the CBS shares exchanged.

On a pro forma basis, the results of operations of ANLBC, Leisure Arts and WFRV TV Station are not significant to those of Liberty for the years ended December 31, 2007 and 2006.

IAC/InterActiveCorp

In the first quarter of 2008, Liberty purchased an additional 14 million shares of IAC common stock in a private transaction for cash consideration of $339 million.

On August 21, 2008, IAC completed the spin off of four separate subsidiaries, HSN, Inc., Interval Leisure Group, Inc., Ticketmaster Entertainment Inc. and Tree.com, Inc., to its shareholders, including Liberty. Subsequent to these spin offs Liberty held an approximate 30% ownership interest in each of these companies and accordingly, accounts for them using the equity method of accounting.

At December 31, 2008, Liberty owned approximately 29% of IAC common stock representing an approximate 60% voting interest. However, under governance arrangements existing at December 31, 2008, Mr. Barry Diller, the Chairman of IAC, voted Liberty's shares, subject to certain limitations. Due to this voting arrangement and the fact that Liberty has rights to appoint only two of the twelve members of the IAC board of directors, Liberty's ability to exert significant influence over IAC is limited. Accordingly, Liberty accounts for this investment as an AFS security.

News Corporation

On February 27, 2008, Liberty exchanged all of its shares of News Corporation common stock for a subsidiary of News Corporation. See note 8 for further discussion of this transaction.

Other Than Temporary Declines in Fair Value of Investments

During the years ended December 31, 2008, 2007 and 2006, Liberty determined that certain of its AFS securities and cost investments experienced other than temporary declines in value. The primary factors considered by Liberty in determining the timing of the recognition for these impairments was the length of time the investments traded below Liberty's cost bases, the severity of the declines and the lack of near-term prospects for recovery in the stock prices. As a result, the carrying amounts of such investments were adjusted to their respective fair values based primarily on quoted market prices at the balance sheet date. These adjustments are reflected as other than temporary declines in fair value of investments in the consolidated statements of operations. The Company's 2008 other than temporary declines in value include $440 million related to its investment in IAC.

Unrealized Holdings Gains and Losses

Unrealized holding gains and losses related to investments in AFS securities are summarized below.

	December 31, 2008		December 31, 2007	
	Equity securities	Debt securities	Equity securities	Debt securities
	amounts in millions			
Gross unrealized holding gains	$ 9	—	6,249	—
Gross unrealized holding losses	$(4)	—	—	(12)

The aggregate fair value of securities with unrealized holding losses at December 31, 2008 was $638 million. None of these securities had unrealized losses for more than 12 continuous months.

(8) Investments in Affiliates Accounted for Using the Equity Method

Liberty has various investments accounted for using the equity method. The following table includes Liberty's carrying amount and percentage ownership of the more significant investments in affiliates at December 31, 2008 and the carrying amount at December 31, 2007:

	December 31, 2008		December 31, 2007
	Percentage ownership	Carrying amount	Carrying amount
		dollar amounts in millions	
Entertainment Group			
DIRECTV	54%	$13,085	—
Other	various	281	249
Interactive Group			
Expedia	24%	559	1,301
Other	various	342	10
Capital Group			
Other	various	223	257
		$14,490	1,817

The following table presents Liberty's share of earnings (losses) of affiliates:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Entertainment Group			
DIRECTV	$ 404	—	—
Other	14	13	14
Interactive Group			
Expedia	(726)	68	50
Other	(466)	9	(3)
Capital Group			
Other	(64)	(68)	30
	$(838)	22	91

DIRECTV

On February 27, 2008, Liberty completed a transaction with News Corporation (the "News Corporation Exchange") in which Liberty exchanged all of its 512.6 million shares of News Corporation common stock valued at $10,143 million on the closing date for a subsidiary of News Corporation that held an approximate 41% interest in DIRECTV, three regional sports television networks that now comprise Liberty Sports Group and $463 million in cash. In addition, Liberty incurred $21 million of acquisition costs. Liberty recognized a pre-tax gain of $3,665 million based on the difference between the fair value and the cost basis of the News Corporation shares exchanged.

Liberty accounted for the News Corporation Exchange as a nonmonetary exchange under APB Opinion No. 29 *"Accounting for Nonmonetary Transactions."* Accordingly, Liberty recorded the assets received at an amount equal to the fair value of the News Corporation common stock given up. Such amount was allocated to DIRECTV and Liberty Sports Group based on their relative fair values as follows (amounts in millions):

Cash	$ 463
DIRECTV	10,765
Liberty Sports Group	448
Deferred tax liability	(1,512)
Total	$10,164

Liberty estimated the fair values of Liberty Sports Group and DIRECTV's assets using a combination of discounted cash flows and market prices for comparable assets.

At the time of closing, the value attributed to Liberty's investment in DIRECTV exceeded Liberty's proportionate share of DIRECTV's equity by $8,022 million. Due to additional purchases of DIRECTV stock by Liberty and stock repurchases by DIRECTV, such excess basis has increased to

$10,483 million as of December 31, 2008. Such amount has been allocated within memo accounts used for equity accounting purposes as follows (amounts in millions):

		Useful life
Subscriber list	$ 2,895	7 years
Trade name	3,505	Indefinite
Orbital slots	4,836	Indefinite
Goodwill	3,322	Indefinite
Satellites	189	12 years
Software technology	611	8 years
Liabilities	(101)	1-5 years
Deferred tax liability	(4,774)	
Total	$10,483	

Amortization related to the intangible assets with identifiable useful lives within the memo accounts is included in Liberty's share of earnings of DIRECTV in the accompanying condensed consolidated statement of operations and aggregated $224 million (net of related taxes) for the 10 months ended December 31, 2008.

The following unaudited pro forma information for Liberty for the years ended December 31, 2008 and 2007 was prepared assuming the News Corporation Exchange occurred on January 1, 2008 and January 1, 2007, respectively. The pro forma amounts are not necessarily indicative of operating results that would have been obtained if the News Corporation Exchange had occurred on such dates.

	Years ended December 31,	
	2008	2007
	amounts in millions	
Revenue	$10,120	9,638
Earnings (loss) from continuing operations	$(1,940)	2,137
Net earnings (loss)	$(1,940)	2,286

The foregoing earnings (loss) from continuing operations and net earnings (loss) amounts exclude the gain and related tax benefit recognized in connection with the News Corporation Exchange.

On April 3, 2008, Liberty purchased 78.3 million additional shares of DIRECTV common stock in a private transaction for cash consideration of $1.98 billion. Liberty funded the purchase with borrowings against a newly executed equity collar on 110 million DIRECTV common shares. As of May 5, 2008, Liberty's ownership in DIRECTV was approximately 47.9%, and Liberty and DIRECTV entered into a standstill agreement. Pursuant to the standstill agreement, in the event Liberty's ownership interest goes above 47.9% due to stock repurchases by DIRECTV Liberty has agreed to vote its shares of DIRECTV which represent the excess ownership interest above 47.9% in the same proportion as all DIRECTV shareholders other than Liberty. Accordingly, although Liberty's economic ownership in DIRECTV is above 50%, Liberty continues to account for such investment using the equity method of accounting. Liberty records its share of DIRECTV's earnings based on its economic interest in DIRECTV.

The market value of the Company's investment in DIRECTV was $12,571 million at December 31, 2008. Summarized unaudited financial information for DIRECTV is as follows:

DIRECTV Consolidated Balance Sheet

	December 31, 2008
	amounts in millions
Current assets	$ 4,044
Satellites, net	2,476
Property and equipment, net	4,171
Goodwill	3,753
Intangible assets	1,172
Other assets	923
Total assets	$16,539
Current liabilities	$ 3,585
Deferred income taxes	524
Long-term debt	5,725
Other liabilities	1,749
Minority interest	103
Stockholders' equity	4,853
Total liabilities and equity	$16,539

DIRECTV Consolidated Statement of Operations

	Year ended December 31, 2008
	amounts in millions
Revenue	$19,693
Costs of revenue	(9,948)
Selling, general and administrative expenses	(4,730)
Depreciation and amortization	(2,320)
Operating income	2,695
Interest expense	(360)
Other income, net	44
Income tax expense	(864)
Earnings from continuing operations	1,515
Earnings from discontinued operations	6
Net earnings	$ 1,521

Expedia

Our share of losses of Expedia for the year ended December 31, 2008 includes a $119 million other than temporary impairment charge. The market value of the Company's investment in Expedia was $570 million and $2,189 million at December 31, 2008 and 2007, respectively. Summarized unaudited financial information for Expedia is as follows:

Expedia Consolidated Balance Sheets

	December 31,	
	2008	2007
	amounts in millions	
Current assets	$1,199	1,046
Property and equipment	248	179
Goodwill	3,539	6,006
Intangible assets	833	971
Other assets	75	93
Total assets	$5,894	8,295
Current liabilities	$1,566	1,774
Deferred income taxes	190	351
Long-term debt	1,545	1,085
Other liabilities	212	205
Minority interest	53	62
Stockholders' equity	2,328	4,818
Total liabilities and equity	$5,894	8,295

Expedia Consolidated Statements of Operations

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Revenue	$ 2,937	2,665	2,238
Cost of revenue	(635)	(562)	(503)
Gross profit	2,302	2,103	1,735
Selling, general and administrative expenses	(1,666)	(1,496)	(1,226)
Amortization	(69)	(78)	(111)
Impairment of long-lived assets	(2,996)	—	(47)
Operating income (loss)	(2,429)	529	351
Interest expense	(72)	(53)	(17)
Interest income	30	39	32
Other income (expense)	(41)	(16)	18
Income tax expense	(6)	(203)	(139)
Net earnings (loss)	$(2,518)	296	245

Spin Off Companies from IAC

As described in note 7, IAC completed the spin off of HSN, Interval, Ticketmaster and Lending Tree (the "IAC Spin Off Companies") on August 21, 2008. Liberty received an approximate 30% ownership interest in each of the IAC Spin Off Companies. Liberty allocated its carrying value in IAC prior to the spin off among IAC and the IAC Spin Off Companies based on their relative fair values at the time of the spin off. Liberty received no super voting shares in and has no special voting arrangements with respect to any of the IAC Spin Off Companies (other than with respect to the election of directors), and therefore, accounts for its interests using the equity method of accounting. Liberty has elected to record its share of earnings/losses for each of the IAC Spin Off Companies on a three month lag due to timeliness considerations. Since the spin off occurred in the third quarter of 2008, Liberty recorded its initial share of income or losses for the IAC Spin Off Companies in the fourth quarter of 2008. Such net losses aggregated $464 million, including other than temporary impairment charges of $136 million, $242 million and $85 million related to the Company's investments in Interval, Ticketmaster and HSN, respectively.

(9) Investment in Special Purpose Entity

In April 2007, Liberty and a third party financial institution (the "Financial Institution") jointly created a series of special purpose entities (the "Investment Fund"). Pursuant to the terms of the Investment Fund, a Liberty subsidiary borrowed $750 million from the Financial Institution with the intent to invest such proceeds in a portfolio of selected debt and mezzanine-level instruments of companies in the telecommunications, media and technology sectors (the "Debt Securities"). One of the special purpose entities ("MFC") in the Investment Fund was a variable interest entity of which the Financial Institution was deemed the primary beneficiary and thus its parent for consolidation purposes. Liberty contributed the borrowed funds to MFC in exchange for a mandatorily redeemable preferred stock interest. MFC subsequently invested the proceeds as an equity investment in another special purpose entity ("LCAP Investments LLC") which will make and hold the investments in the Debt Securities. A Liberty subsidiary separately made a nominal investment in LCAP Investments LLC which allows it to serve as its Managing Member. LCAP Investments LLC is considered a variable interest entity of which Liberty is deemed the primary beneficiary as a result of various special profit and loss allocations set forth in the governing agreements. As a result, LCAP Investments LLC is treated as a consolidated subsidiary of Liberty. Liberty is required to post cash collateral for the benefit of the Financial Institution of up to 20% of the cost of the Debt Securities.

Prior to the first quarter of 2008, the various accounting treatment determinations noted above for MFC and LCAP Investments LLC, as prescribed by FIN 46R, *"Consolidation of Variable Interest Entities,"* and Statement of Financial Accounting Standards No. 150, *"Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity,"* and related interpretations, resulted in Liberty recording a balance sheet gross-up of the elements in the Investment Fund. The cash balances and Debt Securities held by LCAP Investments LLC are consolidated with Liberty and included in restricted cash and available-for-sale securities, respectively. The $750 million of bank financing held by the Liberty subsidiary is included in Liberty's consolidated debt balance. In addition, the preferred stock interest in MFC was presented separately as a long-term asset, and the equity interest held by MFC in LCAP Investments LLC was reflected as minority interest in Liberty's consolidated balance sheet. The structural form of the Investment Fund did not meet the GAAP requirements necessary to offset, net or otherwise eliminate the gross-up of balance sheet accounts.

In the first quarter of 2008 and as a result of the occurrence of certain triggering events contained in the terms of the Investment Fund, a portion of the Investment Fund structure was unwound, and MFC was liquidated. Accordingly, Liberty's preferred stock investment in MFC and the minority interest in LCAP Investments LLC were eliminated in equal amounts.

The amount of restricted cash in the Investment Fund at December 31, 2008 is $518 million and is reflected in other long-term assets in Liberty's consolidated balance sheet.

(10) Financial Instruments

Equity Collars and Put Options

The Company has entered into equity collars, written put and call options and other financial instruments to manage market risk associated with its investments in certain marketable securities. These instruments are recorded at fair value based on option pricing models. Equity collars provide the Company with a put option that gives the Company the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price at a specified date in the future. Equity collars also provide the counterparty with a call option that gives the counterparty the right to purchase the same securities at a specified price at a specified date in the future. The put option and the call option generally have equal fair values at the time of origination resulting in no cash receipts or payments.

Borrowed Shares

From time to time and in connection with certain of its derivative instruments, Liberty borrows shares of the underlying securities from a counterparty and delivers these borrowed shares in settlement of maturing derivative positions. In these transactions, a similar number of shares that are owned by Liberty have been posted as collateral with the counterparty. These share borrowing arrangements can be terminated at any time at Liberty's option by delivering shares to the counterparty. The counterparty can terminate these arrangements at any time. The liability under these share borrowing arrangements is marked to market each reporting period with changes in value recorded in unrealized gains or losses in the consolidated statement of operations. The shares posted as collateral under these arrangements continue to be treated as AFS securities and are marked to market each reporting period with changes in value recorded as unrealized gains or losses in the consolidated statement of operations.

The Company's financial instruments are summarized as follows:

Type of financial instrument	December 31, 2008	December 31, 2007
	amounts in millions	
Assets		
Equity collars	$ 2,392	1,458
Other	93	155
	2,485	1,613
Less current portion	(1,157)	(23)
	$ 1,328	1,590
Liabilities		
Borrowed shares	$ 392	1,183
Other	350	199
	742	1,382
Less current portion	(553)	(1,206)
	$ 189	176

Realized and Unrealized Gains (Losses) on Financial Instruments

Realized and unrealized gains (losses) on financial instruments are comprised of changes in the fair value of the following:

	Years ended December 31, 2008	2007	2006
	amounts in millions		
Statement 159 Securities(1)	$(2,887)	—	—
Exchangeable senior debentures(2)	1,509	541	(353)
Equity collars	1,101	527	(59)
Borrowed shares	791	298	(32)
Other derivatives	(548)	(97)	165
	$ (34)	1,269	(279)

(1) See note 3 regarding Liberty's accounting for its Statement 159 Securities.

(2) See note 12 for a description of Liberty's exchangeable senior debentures.

(11) Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill are as follows:

	QVC	Starz Entertainment	Starz Media	Other	Total
		amounts in millions			
Balance at January 1, 2007	$5,416	1,371	357	444	7,588
Acquisitions(1)	—	—	—	466	466
Impairment(2)	—	—	(182)	(32)	(214)
Foreign currency translation adjustments	44	—	14	—	58
Other(3)	(41)	—	5	(7)	(43)
Balance at December 31, 2007	5,419	1,371	194	871	7,855
Acquisitions(4)	—	—	—	311	311
Impairment(5)	—	(1,239)	(186)	(115)	(1,540)
Foreign currency translation adjustments	(54)	—	(8)	—	(62)
Other	(2)	—	—	(12)	(14)
Balance at December 31, 2008	$5,363	132	—	1,055	6,550

(1) During the year ended December 31, 2007, Liberty completed several exchange transactions in which it received ANLBC, Leisure Arts and WFRV TV Station. Liberty also acquired Backcountry and Bodybuilding for cash. The foregoing transactions resulted in the recording of $466 million of goodwill. The goodwill recorded for these transactions represents the difference between the consideration paid and the estimated fair value of the assets acquired.

(2) In connection with its 2007 annual evaluation of the recoverability of Starz Media's goodwill, Liberty estimated the fair value of Starz Media's reporting units and concluded that the carrying value of certain reporting units exceeded their respective fair values. Accordingly, Liberty recognized a $182 million impairment charge related to goodwill. During the third quarter of 2007, FUN recognized a $32 million goodwill and $9 million other intangible impairment loss related to its sports information division due to new competitors in the marketplace and the resulting loss of revenue and operating income.

(3) Other activity for QVC in 2007 primarily relates to the reversal of certain tax reserves in connection with the adoption of FIN 48. Such tax reserves were established prior to Liberty's acquisition of a controlling interest in QVC in 2003. Accordingly, the offset to the reversal of the tax reserves was a reduction of goodwill.

(4) In 2008, Liberty completed the News Corporation Exchange described in note 8, as well as several small acquisitions. Liberty recorded $249 million of goodwill related to Liberty Sports Group in connection with the News Corporation Exchange.

(5) In the third quarter of 2008, based on certain triggering events, Liberty evaluated the recoverability of WFRV TV Station's long-lived assets and preliminarily determined that a $34 million impairment charge was needed. Such amount was further adjusted to $59 million in the fourth quarter of 2008. Additionally, Liberty performed its annual evaluation of the recoverability of its goodwill and other indefinite lived intangible assets pursuant to Statement 142. In its Step 1 Test, Liberty estimated the fair value of each of its reporting units using a combination of discounted

cash flows and market based valuation methodologies. For those reporting units whose estimated fair value exceeded the carrying value, no further testwork was required and no impairment was recorded. For those reporting units whose carrying value exceeded the fair value, a Step 2 Test was performed. In the Step 2 Test, the fair value of the reporting unit was allocated to all of the assets and liabilities of the reporting unit with any residual value being allocated to goodwill. The difference between such allocated amount and the carrying value of the goodwill is recorded as an impairment charge. In connection with its analysis, Liberty recorded the following impairment charges (amounts in millions):

Starz Entertainment	$1,239
Starz Media	192
WFRV TV Station	59
Other	79
	$1,569

Liberty believes that the foregoing impairment charges, which also include $29 million of impairments of intangible assets other than goodwill, are due in large part to the current economic crisis and the downward impact it has had on perceptions of future growth prospects and valuation multiples for its reporting units.

While Starz Entertainment has had increasing revenue and Adjusted OIBDA, as defined in note 21, in recent years, it failed the Step 1 Test due to the aforementioned lower future growth expectations and the compression of market multiples. In performing the Step 2 Test, Starz Entertainment allocated a significant portion of its estimated fair value to amortizable intangibles such as affiliation agreements and trade names which have little or no carrying value. The resulting residual goodwill was significantly less than its carrying value. Accordingly, Starz Entertainment recorded an impairment charge. The impairment loss for Starz Media is due primarily to a lowered long-term forecast for its home video distribution reporting unit resulting from the current economic conditions.

While QVC's results of operations have been adversely impacted by the current economic crisis, QVC passed its Step 1 Test and Liberty believes QVC's long-lived assets, including its goodwill, are recoverable. This determination is based on several factors. In 2003, Liberty acquired substantially all of the remaining interest in QVC that it did not previously own (approximately 57%). In this transaction only the 57% interest in the assets and liabilities acquired were recorded at their then fair market values based on the step acquisition accounting rules applicable at that time. The rest of QVC's basis in the assets and liabilities was reflected at historical cost which was significantly less than fair value. The vast majority of QVC's goodwill balances arose from this step acquisition. As a result, the amount of goodwill reflected at QVC is significantly less than it would have been if 100% of the shares had been acquired in that transaction. Secondly, QVC's Adjusted OIBDA has increased from $1,013 million in 2003 to $1,502 million in 2008 which translates into an 8% cumulative annual growth rate. As a result, even with a decline in Adjusted OIBDA in 2008, the business is significantly larger than it was when the goodwill was initially recorded. Lastly, the nature and structure of QVC's operations as a national electronic retailer without the capital costs of maintaining local physical points of presence like retail stores allows it to retain a significant portion of its Adjusted OIBDA which contributes to favorable valuation metrics in the discounted cash flow model principally used in the Step 1 Test. Liberty also considered in its Step

1 Test the significant decline in the equity market capitalization of the Liberty Interactive Group during 2008 and developed a reconciliation of this market capitalization to its estimates of the aggregate fair value for the reporting units attributable to the Interactive Group. The reconciling items were principally ascribed to control premiums associated with Liberty's consolidated businesses that would not be reflected in public market trading prices, estimates of discounts that the marketplace might place on tracking stocks and estimates of other discounts the marketplace may have placed on perceived liquidity concerns and tax attributes of the Interactive Group. After considering all of this information Liberty's conclusion is that the fair value of the QVC reporting unit is clearly in excess of its carrying value.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are comprised of the following:

	December 31, 2008			December 31, 2007		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	amounts in millions					
Distribution rights	$2,403	(894)	1,509	2,326	(715)	1,611
Customer relationships	2,682	(987)	1,695	2,669	(785)	1,884
Other	938	(653)	285	911	(543)	368
Total	$6,023	(2,534)	3,489	5,906	(2,043)	3,863

Distribution rights and customer relationships are amortized primarily over 14 years and 10-14 years, respectively. Amortization expense was $518 million, $512 million and $463 million for the years ended December 31, 2008, 2007 and 2006, respectively. Based on its amortizable intangible assets as of December 31, 2008, Liberty expects that amortization expense will be as follows for the next five years (amounts in millions):

2009	$484
2010	$447
2011	$410
2012	$374
2013	$388

(12) Long-Term Debt

Debt is summarized as follows:

	Outstanding principal December 31, 2008	Carrying value December 31, 2008	Carrying value December 31, 2007
	amounts in millions		
Capital Group			
Exchangeable senior debentures			
3.125% Exchangeable Senior Debentures due 2023	$ 1,264	918	1,820
4% Exchangeable Senior Debentures due 2029	869	256	556
3.75% Exchangeable Senior Debentures due 2030	810	241	463
3.5% Exchangeable Senior Debentures due 2031	497	138	432
Liberty bank facility	750	750	750
Liberty derivative loan	625	625	—
Subsidiary debt	135	135	44
Total attributed Capital Group debt	4,950	3,063	4,065
Interactive Group			
Senior notes and debentures			
7.875% Senior Notes due 2009	104	104	668
7.75% Senior Notes due 2009	13	13	234
5.7% Senior Notes due 2013	803	801	801
8.5% Senior Debentures due 2029	287	284	495
8.25% Senior Debentures due 2030	505	501	895
3.25% Exchangeable Senior Debentures due 2031	551	138	—
QVC bank credit facilities	5,230	5,230	4,023
Other subsidiary debt	60	60	61
Total attributed Interactive Group debt	7,553	7,131	7,177
Entertainment Group			
DIRECTV Collar Loan	1,981	1,981	—
3.25% Senior Exchangeable Debentures due 2031	—	—	419
Subsidiary debt	52	52	54
Total attributed Entertainment Group debt	2,033	2,033	473
Total consolidated Liberty debt	$14,536	12,227	11,715
Less current maturities		(868)	(191)
Total long-term debt		$11,359	11,524

Exchangeable Senior Debentures

Each $1,000 debenture of Liberty's 3.125% Exchangeable Senior Debentures is exchangeable at the holder's option for the value of 57.4079 shares of Time Warner common stock. Liberty may, at its election, pay the exchange value in cash, Time Warner common stock, shares of Liberty common stock or a combination thereof. On or after April 5, 2013, Liberty, at its option, may redeem the debentures, in whole or in part, for cash equal to the face amount of the debentures plus accrued interest. On March 30, 2013 or March 30, 2018, each holder may cause Liberty to purchase its exchangeable debentures, and Liberty, at its election, may pay the purchase price in shares of Time Warner common stock, cash, Liberty common stock, or any combination thereof.

The holders of Liberty's 0.75% Exchangeable Senior Debentures due 2023, which had an aggregate principal amount of approximately $1.75 billion, had the right to put such debentures to Liberty at 100% of par during the period from February 25, 2008 to March 24, 2008 for payment on March 31, 2008. Holders of approximately $486 million principal amount of debentures surrendered them for repurchase. Liberty elected to pay cash for the validly tendered debentures and obtained the necessary cash with borrowings against one of its equity collars. In addition, Liberty modified the terms of the debentures. Such modifications included (i) deferral of Liberty's ability to redeem the debentures from April 5, 2008 to April 5, 2013, (ii) surrender of Liberty's right to pay holders with shares of Time Warner common stock upon maturity or redemption (but continue to allow Liberty to settle with Time Warner stock upon exchange or put by a holder) and (iii) increasing the rate of interest from 0.75% to 3.125% beginning March 30, 2008.

Each $1,000 debenture of Liberty's 4% Exchangeable Senior Debentures is exchangeable at the holder's option for the value of 11.4743 shares of Sprint common stock and .5737 shares of Embarq Corporation ("Embarq"), which Sprint spun off to its shareholders in May 2006. Liberty may, at its election, pay the exchange value in cash, Sprint and Embarq common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the face amount of the debentures plus accrued interest.

Each $1,000 debenture of Liberty's 3.75% Exchangeable Senior Debentures is exchangeable at the holder's option for the value of 8.3882 shares of Sprint common stock and .4194 shares of Embarq common stock. Liberty may, at its election, pay the exchange value in cash, Sprint and Embarq common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash equal to the face amount of the debentures plus accrued interest.

Each $1,000 debenture of Liberty's 3.5% Exchangeable Senior Debentures (the "Motorola Exchangeables") is exchangeable at the holder's option for the value of 36.8189 shares of Motorola common stock. Such exchange value is payable, at Liberty's option, in cash, Motorola stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the adjusted principal amount of the debentures plus accrued interest. As a result of a cash distribution made by Liberty in 2007 to holders of the Motorola Exchangeables, the adjusted principal amount of each $1,000 debenture is $837.38.

Each $1,000 debenture of Liberty's 3.25% Exchangeable Senior Debentures is exchangeable at the holder's option for the value of 9.2833 shares of Viacom Class B common stock and 9.2833 shares of CBS Corporation ("CBS") Class B common stock, which Viacom spun off to its shareholders in December 2005. Such exchange value is payable at Liberty's option in cash, Viacom and CBS stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash equal to the face amount of the debentures plus accrued interest.

In the fourth quarter of 2008, Liberty changed the attribution of its 3.25% Exchangeable Senior Debentures from the Entertainment Group to the Interactive Group along with $380 million in cash.

Interest on the Company's exchangeable debentures is payable semi-annually based on the date of issuance. At maturity, all of the Company's exchangeable debentures are payable in cash.

Liberty Bank Facility

Represents borrowings related to the Investment Fund described in note 9 above. Borrowings accrue interest at LIBOR plus an applicable margin (3.76% at December 31, 2008).

Liberty Derivative Loan

In 2008, Liberty borrowed $1,425 million against certain of its derivative positions and subsequently repaid $800 million of such amount. Such borrowings are due in 2010 and accrue interest at LIBOR plus an applicable margin (4.75% at December 31, 2008).

Senior Notes and Debentures

Interest on the Senior Notes and Senior Debentures is payable semi-annually based on the date of issuance.

The Senior Notes and Senior Debentures are stated net of an aggregate unamortized discount of $9 million and $15 million at December 31, 2008 and 2007, respectively. Such discount is being amortized to interest expense in the accompanying consolidated statements of operations.

Senior Notes Due 2009

On September 26, 2008, Liberty commenced cash tender offers for any and all of its outstanding 7⅞% Senior Notes due 2009 ("7⅞% Notes") and 7¾% Senior Notes due 2009 ("7¾% Notes"). The tender offers expired on October 27, 2008.

In the tender offer for the 7⅞% Notes, Liberty offered to pay total consideration of $1,007.50 for each $1,000 principal amount tendered and accepted for purchase, which included an early tender premium of $10.00 per $1,000 principal amount of 7⅞% Notes.

In the tender offer for the 7¾% Notes, Liberty offered to pay total consideration of $1,006.50 for each $1,000 principal amount tendered and accepted for purchase, which included an early tender premium of $10.00 per $1,000 principal amount of 7¾% Notes.

Holders of approximately $566 million aggregate principal amount of 7⅞% Notes and approximately $216 million aggregate principal amount of 7¾% Notes validly tendered their Notes pursuant to the tender offers, and Liberty accepted for payment all such Notes. In October 2008, Liberty paid a total of $803 million, including accrued interest of $15 million to settle all Notes tendered and accepted and recognized a loss on early extinguishment of $7 million.

In addition to the foregoing tender offers, Liberty opted to settle a debt swap with respect to $4.9 million principal amount of the 7¾% Notes.

Senior Debentures due 2029 and 2030

On November 3, 2008, Liberty commenced cash tender offers for the maximum amount of its outstanding 8½% Senior Debentures due 2029 ("8½% Debentures") and 8¼% Senior Debentures due 2030 ("8¼% Debentures") that could be purchased for $285 million at a purchase price per $1,000 principal amount determined in accordance with the procedures of a modified "Dutch Auction." Based on the Debentures that were tendered and the prices at which they were tendered, the purchase price to be paid by Liberty was determined to be $587.50 per $1,000 principal amount. The tender offer was oversubscribed, and the aggregate amount of Debentures validly tendered would have caused Liberty to spend more than $285 million. Therefore, Liberty accepted validly tendered Debentures on a prorated basis resulting in $175.8 million aggregate principal amount of 8½% Debentures and $309.4 million aggregate principal amount of 8¼% Debentures for repurchase and recognized a gain on early extinguishment of $247 million.

In addition to the foregoing tender offers, Liberty opted to settle debt swaps with respect to $87.8 million principal amount of the 8¼% Debentures and $37.0 million principal amount of the 8½% Debentures.

QVC Bank Credit Facilities

QVC is party to an unsecured $3.5 billion bank credit facility dated March 3, 2006 (the "March 2006 Credit Agreement"). The March 2006 Credit Agreement is comprised of two $800 million U.S. dollar term loans, a $600 million multi-currency term loan that was drawn in U.S. dollars, a $650 million U.S. dollar revolving loan and a $650 million multi-currency revolving loan. Substantially all revolving loans were fully drawn as of December 31, 2008. The foregoing multi-currency loans can be made, at QVC's option, in U.S. dollars, Japanese yen, U.K. pound sterling or euros. All loans are due and payable on March 3, 2011.

QVC is party to a second credit agreement dated October 4, 2006, as amended on March 20, 2007 (the "October 2006 Credit Agreement"), which provides for an additional unsecured $1.75 billion credit facility, consisting of an $800 million initial term loan and $950 million of delayed draw term loans, all of which has been drawn. The loans are scheduled to mature on October 4, 2011.

All loans under the March 2006 Credit Agreement and the October 2006 Credit Agreement bear interest at a rate equal to (i) LIBOR for the interest period selected by QVC plus a margin that varies based on QVC's leverage ratio or (ii) the higher of the Federal Funds Rate plus 0.50% or the prime rate announced by the respective Administrative Agent from time to time. The weighted average interest rate for all borrowings under QVC's Credit Agreements at December 31, 2008 was 2.46%. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments. Such fees have not been significant to date.

The credit agreements contain restrictive covenants, which require among other things, the maintenance of certain financial ratios and include limitations on indebtedness, liens, encumbrances, dispositions, guarantees and dividends. QVC was in compliance with its debt covenants at December 31, 2008.

QVC Interest Rate Swap Arrangements

QVC is party to ten separate interest rate swap arrangements with an aggregate notional amount of $2,200 million to manage the cash flow risk associated with interest payments on its variable rate debt. The swap arrangements provide for QVC to make fixed payments at rates ranging from 4.9575% to 5.2928% and to receive variable payments at 3 month LIBOR. All of the swap arrangements expire in March 2011 contemporaneously with the maturity of the March 2006 Credit Agreement. Until December 2008, Liberty accounted for the swap arrangements as cash flow hedges with the effective portions of changes in the fair value reflected in other comprehensive earnings in the accompanying consolidated balance sheet. In December 2008, QVC elected interest terms under its credit facilities that do not effectively match the terms of the swap arrangements. As a result, the swaps no longer qualify as cash flow hedges under Statement No. 133. Accordingly, changes in the fair value of the swaps are now reflected in realized and unrealized gains or losses on financial instruments in the accompanying consolidated statements of operations.

QVC is also party to two interest rate swap arrangements with an aggregate notional amount of $600 million. These swap arrangements, which expire in October 2010, provide for QVC to make fixed payments at 3.07% and to receive variable payments at 3 month LIBOR. These swap arrangements do not qualify as cash flow hedges under Statement 133.

Liberty Derivative Borrowing

In April 2008, Liberty entered into an equity collar (the "DIRECTV Collar") for 110 million shares of DIRECTV common stock and a related credit facility (the "Collar Loan") against the present value of the put value of such collar. At the time of closing, Liberty borrowed $1,977 million. The Collar Loan is due as the DIRECTV Collar terminates in six tranches from June 2009 through August 2012. Each tranche is repayable during a six-month period based upon a formula that factors in several variables including the market price of DIRECTV common stock. Interest accrues at an effective weighted average interest rate of 3.5% and is due and payable as each tranche matures. Borrowings are collateralized by the puts underlying the Collar Loan and 170 million shares of DIRECTV common stock owned by Liberty.

In November 2008, Liberty chose to unwind 50% of the first tranche of the DIRECTV Collar. The first tranche expires in 2009 and originally had 22.5 million DIRECTV shares underlying it. As part of this transaction, Liberty repaid the portion of the Collar Loan ($228.4 million) associated with the shares that were unwound. Such repayment was funded with (1) proceeds from the collar unwind ($45.5 million), (2) funds borrowed from the remaining capacity of the Collar Loan ($181.1 million) and (3) cash on hand ($1.8 million). As a result of this transaction, the amount of the Collar Loan due in 2009 is approximately $258 million including accrued interest.

The DIRECTV Collar contains a provision that allows the counterparty to terminate a portion of the DIRECTV Collar if the total number of shares of DIRECTV underlying the DIRECTV Collar exceeds 20% of the outstanding public float of DIRECTV common stock. In the event the counterparty chooses to terminate a portion of the DIRECTV Collar, the repayment of the corresponding debt would be accelerated. The counterparty has agreed to waive its right to terminate a portion of the DIRECTV Collar until early May 2009, subject to the condition that the total number of shares underlying the DIRECTV Collar does not exceed 23% of the outstanding public float of DIRECTV common stock. As of December 31, 2008, the total number of shares underlying the DIRECTV Collar did not exceed the 23% limit.

Other Subsidiary Debt

Other subsidiary debt at December 31, 2008 is comprised of capitalized satellite transponder lease obligations and bank debt of certain subsidiaries.

Five Year Maturities

The U.S. dollar equivalent of the annual principal maturities of Liberty's debt for each of the next five years is as follows (amounts in millions):

2009	$ 874
2010	$ 999
2011	$5,961
2012	$1,286
2013	$ 816

Fair Value of Debt

Liberty estimates the fair value of its debt based on the quoted market prices for the same or similar issues or on the current rate offered to Liberty for debt of the same remaining maturities. The fair value of Liberty's publicly traded debt securities that are not reported at fair value in the accompanying consolidated balance sheets is as follows:

	December 31,	
	2008	2007
	amounts in millions	
Fixed rate senior notes	$618	1,655
Senior debentures	$501	1,323

Due to the low risk nature of the Collar Loan, Liberty believes that the carrying amount approximates fair value. Due to its variable rate nature, Liberty believes that the carrying amount of its subsidiary debt and other parent debt, approximated fair value at December 31, 2008.

(13) Income Taxes

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Current:			
Federal	$ (167)	(27)	(513)
State and local	(20)	(81)	(92)
Foreign	(94)	(93)	(112)
	(281)	(201)	(717)
Deferred:			
Federal	2,250	(152)	362
State and local	301	31	99
Foreign	10	1	4
	2,561	(120)	465
Income tax benefit (expense)	$2,280	(321)	(252)

Income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Computed expected tax expense	$ (420)	(800)	(336)
Nontaxable exchange of investments for subsidiaries and cash	2,931	541	—
Change in estimated foreign and state tax rates	2	(4)	130
State and local income taxes, net of federal income taxes	178	(35)	(34)
Foreign taxes, net of foreign tax credits	31	(1)	(20)
Change in valuation allowance affecting tax expense	2	(9)	76
Impairment of goodwill not deductible for tax purposes	(462)	(11)	(39)
Disposition of nondeductible goodwill in sales transaction	—	—	(43)
Minority interest	(15)	(3)	(10)
Nontaxable gains (losses) related to the Company's common stock	(64)	—	3
Recognition of tax benefits (expense) not previously recognized, net	75	(6)	(5)
Dividends received deduction	—	12	12
Disqualifying disposition of incentive stock options not deductible for book purposes	—	—	14
Other, net	22	(5)	—
Income tax benefit (expense)	$2,280	(321)	(252)

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	December 31, 2008	December 31, 2007
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 366	315
Accrued stock compensation	89	90
Other accrued liabilities	259	206
Deferred revenue	370	316
Other future deductible amounts	142	117
Deferred tax assets	1,226	1,044
Valuation allowance	(62)	(63)
Net deferred tax assets	1,164	981
Deferred tax liabilities:		
Investments	2,932	5,972
Intangible assets	2,147	2,284
Discount on exchangeable debentures	1,652	1,167
Other	114	109
Deferred tax liabilities	6,845	9,532
Net deferred tax liabilities	$5,681	8,551

The Company's deferred tax assets and liabilities are reported in the accompanying consolidated balance sheets as follows:

	December 31, 2008	December 31, 2007
	amounts in millions	
Current deferred tax liabilities	$ 781	93
Long-term deferred tax liabilities	4,900	8,458
Net deferred tax liabilities	$5,681	8,551

The Company's valuation allowance decreased $1 million in 2008. Such decrease is due to a $2 million decrease that affected tax expense and a $1 million increase for acquisitions.

At December 31, 2008, Liberty had net operating and capital loss carryforwards for income tax purposes aggregating approximately $693 million which, if not utilized to reduce taxable income in future periods, will expire as follows: 2009: $316 million; 2011: $140 million; 2012: $85 million; 2013: $25 million and beyond 2013: $127 million. Of the foregoing net operating and capital loss carryforward amount, approximately $240 million is subject to certain limitations and may not be currently utilized. The remaining $453 million is currently available to be utilized to offset future taxable income of Liberty's consolidated tax group.

From the date Liberty issued its exchangeable debentures through 2007, Liberty claimed interest deductions on such exchangeable debentures for federal income tax purposes based on the "comparable yield" at which it could have issued a fixed-rate debenture with similar terms and conditions. In all instances, this policy resulted in Liberty claiming interest deductions significantly in excess of the cash interest currently paid on its exchangeable debentures. In this regard, Liberty deducted $2,847 million in cumulative interest expense associated with the exchangeable debentures since the Company's 2001 split off from AT&T Corp. ("AT&T"). Of that amount, $844 million represents cash interest payments. Interest deducted in prior years on its exchangeable debentures contributed to net operating losses ("NOLs") or offset taxable income earned in prior taxable years.

In connection with the IRS' examination of Liberty's 2003 through 2007 tax returns, the IRS notified Liberty during the third quarter of 2007 that it believed the interest expense on Liberty's exchangeable debentures was not deductible for the period following Liberty's split-off from AT&T. In February 2008, Liberty reached a settlement with the IRS, which stipulates that interest deductions claimed on a portion of the exchangeable debentures were disallowed and instead will reduce Liberty's gain on the future redemption or other retirement of such debt. The cumulative amount of interest deductions disallowed through December 31, 2007 under the settlement is $546 million. As a result, a portion of Liberty's NOLs were eliminated and Liberty had net taxable income in 2006 and 2007 on its amended tax returns. Consequently, Liberty expects to remit federal income tax payments for the foreseeable future.

The settlement did not have a material impact on Liberty's total tax expense in 2008 as the resulting increase in current tax expense was largely offset by a decrease in deferred tax expense.

A reconciliation of unrecognized tax benefits is as follows:

	Years ended December 31,	
	2008	2007
	amounts in millions	
Balance at beginning of year	$462	422
Additions based on tax positions related to the current year	28	45
Additions for tax positions of prior years	7	9
Reductions for tax positions of prior years	(78)	(7)
Lapse of statute and settlements	(23)	(7)
Balance at end of year	$396	462

As of December 31, 2008, the Company had recorded tax reserves of $396 million related to unrecognized tax benefits for uncertain tax positions. If such tax benefits were to be recognized for financial statement purposes, $334 million would be reflected in the Company's tax expense and affect its effective tax rate. Liberty's estimate of its unrecognized tax benefits related to uncertain tax positions requires a high degree of judgment.

As of December 31, 2008, the Company's 2001 through 2004 tax years are closed for federal income tax purposes, and the IRS has completed its examination of the Company's 2005 through 2007 tax years. The Company's tax loss carryforwards from its 2004 through 2007 tax years are still subject to adjustment. The Company's 2008 tax year is being examined currently as part of the IRS's Compliance Assurance Process ("CAP") program. The states of California and New York are currently examining the Company's 2003 through 2005 tax years. The Company is currently under audit in the UK, Japan, and Germany. It is reasonably possible that the amount of the Company's gross unrecognized tax benefits may increase within the next twelve months by up to $12 million.

As of December 31, 2008, the Company had recorded $26 million of accrued interest and penalties related to uncertain tax positions.

(14) Stockholders' Equity

Preferred Stock

Liberty's preferred stock is issuable, from time to time, with such designations, preferences and relative participating, optional or other rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such preferred stock adopted by Liberty's Board of Directors. As of December 31, 2008, no shares of preferred stock were issued.

Common Stock

Series A Liberty Capital common stock, Series A Liberty Entertainment common stock and Series A Liberty Interactive common stock each has one vote per share, and Series B Liberty Capital common stock, Series B Liberty Entertainment common stock and Series B Liberty Interactive common stock each has ten votes per share. Each share of the Series B common stock is exchangeable at the option of the holder for one share of Series A common stock of the same group. The Series A and Series B common stock of each Group participate on an equal basis with respect to dividends and distributions of that Group.

As of December 31, 2008, there were 4.0 million and 1.4 million shares of Series A and Series B Liberty Capital common stock, respectively, reserved for issuance under exercise privileges of outstanding stock options.

As of December 31, 2008, there were 31.4 million and 7.5 million shares of Series A and Series B Liberty Interactive common stock, respectively, reserved for issuance under exercise privileges of outstanding stock options.

As of December 31, 2008, there were 16.0 million and 6.0 million shares of Series A and Series B Liberty Entertainment common stock, respectively, reserved for issuance under exercise privileges of outstanding stock options.

In addition to the Series A and Series B Liberty Capital common stock, the Series A and Series B Liberty Interactive common stock and the Series A and Series B Liberty Entertainment common stock, there are 2.0 billion, 4.0 billion and 4.0 billion shares of Series C Liberty Capital, Series C Liberty Interactive and Series C Liberty Entertainment common stock, respectively, authorized for issuance. As of December 31, 2008, no shares of any Series C common stock were issued or outstanding.

Purchases of Common Stock

During the period from May 10, 2006 to December 31, 2006, the Company repurchased 51.6 million shares of Series A Liberty Interactive common stock in the open market for aggregate cash consideration of $954 million. During the year ended December 31, 2007, the Company repurchased

36.9 million shares of Series A Liberty Interactive common stock in the open market for aggregate cash consideration of $740 million. In addition, Liberty completed a tender offer on June 12, 2007 pursuant to which it accepted for purchase 19,417,476 of Series A Liberty Interactive common stock at a price of $24.95 per share, or aggregate cash consideration of $484 million.

Liberty completed a tender offer on April 5, 2007, pursuant to which it accepted for purchase 11,540,680 shares of Series A Liberty Capital common stock at a price of $113.00 per share or aggregate cash consideration of $1,305 million (including transaction costs).

During the year ended December 31, 2008, the Company repurchased 4.7 million shares of Series A Liberty Interactive common stock in the open market for aggregate cash consideration of $83 million (including $8 million to settle put obligations pursuant to which 2.1 million shares of Liberty Interactive common stock were repurchased) and 33.2 million shares of Series A Liberty Capital common stock for aggregate cash consideration of $478 million (including $16 million to settle put obligations pursuant to which 2.2 million shares of Liberty Capital common stock were repurchased).

All of the foregoing shares were repurchased pursuant to a previously announced share repurchase program and have been retired and returned to the status of authorized and available for issuance.

During the year ended December 31, 2008, the Company sold put options on Series A Liberty Capital common stock, Series A Liberty Interactive common stock and Series A Liberty Entertainment common stock for aggregate net cash proceeds of $46 million and settled put options with respect to each of its tracking stocks for aggregate cash payments of $89 million. As of December 31, 2008, the following put options remain outstanding.

Outstanding Put Options as of December 31, 2008

Series	No. of shares subject to put	Weighted average put price	Expiration date (on or before)
Series A Liberty Capital	555,556	$15.00	March 31, 2009
Series A Liberty Interactive	12,570,775	$15.91	September 30, 2009

During the year ended December 31, 2007, the Company sold put options on Series A Liberty Capital common stock for aggregate net cash proceeds of $20 million. Liberty also sold put options on Series A Liberty Interactive common stock for aggregate net cash proceeds of $14 million.

During the period from May 10, 2006 to December 31 2006, the Company sold put options on Liberty Capital Series A common stock and Liberty Interactive Series A common stock for aggregate cash proceeds of approximately $7 million. All such put options expired out of the money prior to December 31, 2006.

The Company accounts for all of the foregoing put options pursuant to Statement of Financial Accounting Standards No. 150, *"Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity."* Accordingly, the put options are recorded in financial instrument liabilities at fair value, and changes in the fair value are included in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statements of operations.

(15) Transactions with Officers and Directors

Chairman's Employment Agreement

On December 12, 2008, the Compensation Committee (the ''Committee'') of Liberty's board of directors determined to modify its employment arrangements with its Chairman of the Board, to permit the Chairman to begin receiving payments in 2009 in satisfaction of Liberty's obligations to him under two deferred compensation plans and a salary continuation plan. Under one of the deferred compensation plans (the ''8% Plan''), compensation has been deferred by the Chairman since January 1, 1993 and accrues interest at the rate of 8% per annum compounded annually from the applicable date of deferral. The amount owed to the Chairman under the 8% Plan currently aggregates approximately $2.4 million. Under the second plan (the ''13% Plan''), compensation was deferred by the Chairman from 1982 until December 31, 1992 and accrues interest at the rate of 13% per annum compounded annually from the applicable date of deferral. The amount owed to the Chairman under the 13% Plan currently aggregates approximately $20 million. Both deferred compensation plans had provided for payment of the amounts owed to him in 240 monthly installments beginning upon termination of his employment. Under his salary continuation plan, the Chairman would have been entitled to receive $15,000 (increased at the rate of 12% per annum compounded annually from January 1, 1998 to the date of the first payment, (the ''Base Amount'') per month for 240 months beginning upon termination of his employment. The amount owed to the Chairman under the salary continuation plan currently aggregates approximately $39 million. There is no further accrual of interest under the salary continuation plan once payments have begun.

The Committee has determined to modify all three plans to begin making payments to the Chairman in 2009, while he remains employed by the company. By commencing payments under the salary continuation plan, interest will cease to accrue on the Base Amount. As a result of these modifications, and assuming the first payment is made at the beginning of February of 2009, the Chairman will receive 240 equal monthly installments as follows: (1) approximately $20,000 under the 8% Plan; (2) approximately $237,000 under the 13% Plan; and (3) approximately $164,000 under the salary continuation plan.

The Committee also approved certain immaterial amendments to the Chairman's employment agreement intended to comply with Section 409A of the Internal Revenue Code.

Stock Purchases from Chairman

In October 2008, the Company purchased 4.5 million shares of Series A Liberty Capital common stock from its Chairman for $11 per share in cash pursuant to the Company's stock repurchase program.

(16) Stock Options and Stock Appreciation Rights

Liberty—Incentive Plans

Pursuant to the Liberty Media Corporation 2000 Incentive Plan, as amended from time to time (the ''2000 Liberty Incentive Plan''), the Company has granted to certain of its employees stock options and SARs (collectively, ''Awards'') to purchase shares of Series A and Series B Liberty Capital, Liberty Entertainment and Liberty Interactive common stock. The 2000 Liberty Incentive Plan provides for Awards to be made in respect of a maximum of 82.2 million shares of Liberty common stock. On

May 1, 2007, shareholders of the Company approved the Liberty Media Corporation 2007 Incentive Plan. The 2007 Plan provides for Awards to be made in respect of a maximum of 51.4 million shares of Liberty common stock. Liberty issues new shares upon exercise of equity awards.

Pursuant to the Liberty Media Corporation 2002 Nonemployee Director Incentive Plan, as amended from time to time (the "NDIP"), the Liberty Board of Directors has the full power and authority to grant eligible nonemployee directors stock options, SARs, stock options with tandem SARs, and restricted stock.

Liberty—Grants

Awards granted pursuant to the Liberty Incentive Plan and the NDIP in 2006 prior to the Restructuring are provided in the table below. The exercise prices in the table represent the exercise price on the date of grant and have not been adjusted for the effects of the Restructuring or the Reclassification.

Grant year	Grant group	Grant type	Number of awards granted	Weighted average exercise price	Vesting period	Term	Weighted average grant date fair value
Series A Awards							
2006	Employees	Options	2,473,275	$8.24	4 years	7 years	$2.28
2006	Non-employee directors	Options	150,000	$8.70	1 year	10 years	$2.74

During the year ended December 31, 2008, Liberty granted 1,285,787 options with a weighted average grant-date fair value of $1.19 to purchase shares of Series A Liberty Capital common stock, 9,405,564 options with a weighted average grant-date fair value of $2.30 to purchase shares of Series A Liberty Interactive common stock and 5,261,721 options with a weighted average grant-date fair value of $5.79 to purchase shares of Liberty Entertainment common stock.

During the year ended December 31, 2007, Liberty granted 739,681 options to purchase shares of Series A Liberty Capital common stock and 6,093,384 shares of Series A Liberty Interactive common stock to certain of its directors, officers and employees and officers and employees of certain subsidiaries. The Series A Liberty Capital options and the Series A Liberty Interactive options granted in 2007 had a weighted average grant date fair value of $28.78 and $5.88, respectively.

In 2006, subsequent to the Restructuring, Liberty granted 10,018,000 options to purchase Series A Liberty Interactive stock to officers and employees of certain of its subsidiaries. Such options had an estimated weighted average grant-date fair value of $4.94 per share.

The Company has calculated the grant-date fair value for all of its equity classified awards and any subsequent remeasurement of its liability classified awards using the Black-Scholes Model. Prior to 2007, the Company calculated the expected term of the Awards using the methodology included in SEC Staff Accounting Bulletin No. 107. In 2008 and 2007, the Company estimated the expected term of the Awards based on historical exercise and forfeiture data. The volatility used in the calculation for Awards is based on the historical volatility of Liberty's stocks and the implied volatility of publicly traded Liberty options. The Company uses a zero dividend rate and the risk-free rate for Treasury Bonds with a term similar to that of the subject options.

The following table presents the volatilities used by Liberty in the Black-Scholes Model for the 2007 and 2008 grants.

	Volatility
2007 grants	
Liberty Capital options	17.5% - 19.7%
Liberty Interactive options	20.8% - 25.3%
2008 grants	
Liberty Capital options	19.7% - 29.4%
Liberty Interactive options	25.3% - 36.5%
Liberty Entertainment options	19.7% - 29.4%

Liberty—Outstanding Awards

The following table presents the number and weighted average exercise price ("WAEP") of certain options and SARs to purchase Liberty common stock granted to certain officers, employees and directors of the Company. The table assumes the Reclassification had been effective as of January 1, 2008.

	Series A					
	Liberty Capital	WAEP	Liberty Interactive	WAEP	Liberty Entertainment	WAEP
	numbers of options in thousands					
Outstanding at January 1, 2008	2,787	$14.21	24,811	$19.97	11,120	$20.74
Granted	1,286	$ 3.62	9,406	$ 7.78	5,262	$17.72
Exercised	(26)	$10.58	(36)	$12.62	(366)	$19.09
Forfeited	(16)	$13.56	(2,820)	$18.01	(38)	$27.22
Outstanding at December 31, 2008	4,031	$10.83	31,361	$16.48	15,978	$19.77
Exercisable at December 31, 2008	2,127	$13.91	14,848	$20.49	8,245	$20.32

There were no grants or exercises of any of the Company's Series B options during 2008, except that 90,000 options for Series B Liberty Capital common stock with an exercise price of $12.69 were exercised.

The following table provides additional information about outstanding options to purchase Liberty common stock at December 31, 2008.

	No. of outstanding options (000's)	WAEP of outstanding options	Weighted average remaining life	Aggregate intrinsic value (000's)	No. of exercisable options (000's)	WAEP of exercisable options	Aggregate intrinsic value (000's)
Series A Capital	4,031	$10.83	4.9 years	$1,394	2,127	$13.91	$ —
Series B Capital	1,408	$15.20	2.2 years	$ —	1,408	$15.20	$ —
Series A Interactive	31,361	$16.48	4.9 years	$ 829	14,848	$20.49	$ —
Series B Interactive	7,491	$23.41	2.4 years	$ —	7,491	$23.41	$ —
Series A Entertainment	15,978	$19.77	4.9 Years	$4,228	8,245	$20.32	$3,358
Series B Entertainment	5,993	$21.57	2.4 Years	$ —	5,993	$21.57	$ —

Liberty—Exercises

The aggregate intrinsic value of all options exercised during the years ended December 31, 2008, 2007 and 2006 was $3 million, $16 million and $52 million, respectively.

Liberty—Restricted Stock

The following table presents the number and weighted average grant-date fair value ("WAFV") of unvested restricted shares of Liberty common stock held by certain officers and employees of the Company as of December 31, 2008 (numbers of shares in thousands).

	Number of shares	WAFV
Series A Liberty Capital	429	$ 4.01
Series A Liberty Interactive	1,005	$ 4.89
Series A Liberty Entertainment	1,482	$23.41

The aggregate fair value of all restricted shares of Liberty common stock that vested during the years ended December 31, 2008, 2007 and 2006 was $4 million, $28 million and $30 million, respectively.

QVC Awards

QVC had a qualified and nonqualified combination stock option/stock appreciation rights plan (collectively, the "Tandem Plan"). On August 14, 2006, QVC terminated the Tandem Plan and offered to exchange Liberty Interactive Share Units, as defined below, for all outstanding unvested QVC Awards as of September 30, 2006 (the "Exchange Offer"). Each holder of unvested QVC options who accepted the Exchange Offer received Liberty Interactive Share Units in an amount equal to the in-the-money value of the exchanged QVC options divided by the closing market price of Series A Liberty Interactive common stock on the trading day preceding commencement of the Exchange Offer. Liberty Interactive Share Units vest on the same vesting schedule as the unvested QVC Awards and represent the right to receive a cash payment equal to the value of Liberty Interactive common stock on the vesting date. Liberty accounted for the Exchange Offer as a settlement of the outstanding unvested QVC Awards. The difference between the fair value of the Liberty Interactive Share Units and the fair value of unvested QVC Awards was reflected as a reduction to 2006 stock-based compensation.

Also on August 14, 2006, a subsidiary of Liberty offered to purchase for cash all outstanding shares of QVC common stock owned by officers and employees of QVC and all vested QVC Awards (the "Tender Offer"). The Exchange Offer and the Tender Offer both expired on September 30, 2006. All vested QVC Awards and substantially all outstanding shares of QVC common stock were tendered as of September 30, 2006 resulting in cash payments aggregating approximately $258 million. The remaining shares of QVC common stock were redeemed subsequent to September 30, 2006 for additional aggregate cash payments of approximately $17 million. Liberty accounted for the cash paid for outstanding shares of QVC common stock as the acquisition of a minority interest. The difference between the cash paid and the carrying value of the minority interest was allocated to intangible assets using a purchase accounting model. The cash paid for vested options was less than the carrying value of the related liability. Such difference was reflected as a reduction to 2006 stock-based compensation.

The aggregate credit to stock-based compensation for the Exchange Offer and the Tender Offer was $24 million.

Starz Entertainment

Starz Entertainment has outstanding Phantom Stock Appreciation Rights ("PSARS") held by its former chief executive officer. Such PSARs are fully vested and expire on October 17, 2011, and Starz Entertainment has accrued $111 million as of December 31, 2008 related to the PSARs. Such amount is payable in cash, Liberty common stock or a combination thereof.

Other

Certain of the Company's other subsidiaries have stock based compensation plans under which employees and non-employees are granted options or similar stock based awards. Awards made under these plans vest and become exercisable over various terms. The awards and compensation recorded, if any, under these plans is not significant to Liberty.

(17) Employee Benefit Plans

Liberty is the sponsor of the Liberty Media 401(k) Savings Plan (the "Liberty 401(k) Plan"), which provides its employees and the employees of certain of its subsidiaries an opportunity for ownership in the Company and creates a retirement fund. The Liberty 401(k) Plan provides for employees to make contributions to a trust for investment in Liberty common stock, as well as several mutual funds. The Company and its subsidiaries make matching contributions to the Liberty 401(k) Plan based on a percentage of the amount contributed by employees. In addition, certain of the Company's subsidiaries have similar employee benefit plans. Employer cash contributions to all plans aggregated $31 million, $26 million and $27 million for the years ended December 31, 2008, 2007 and 2006, respectively.

(18) Other Comprehensive Earnings (Loss)

Accumulated other comprehensive earnings (loss) included in Liberty's consolidated balance sheets and consolidated statements of stockholders' equity reflect the aggregate of foreign currency translation adjustments, unrealized holding gains and losses on AFS securities and Liberty's share of accumulated other comprehensive earnings of affiliates.

The change in the components of accumulated other comprehensive earnings (loss), net of taxes ("AOCI"), is summarized as follows:

	Foreign currency translation adjustments	Unrealized holding gains (losses) on securities	Share of AOCI of equity affiliates	Other	Accumulated other comprehensive earnings (loss), net of taxes
	amounts in millions				
Balance at January 1, 2006	$ 59	3,362	—	—	3,421
Other comprehensive earnings	110	2,420	1	—	2,531
Balance at December 31, 2006	169	5,782	1	—	5,952
Other comprehensive earnings (loss)	95	(1,931)	3	(46)	(1,879)
Balance at December 31, 2007	264	3,851	4	(46)	4,073
Other comprehensive loss	(46)	(2,812)	(43)	(62)	(2,963)
Cumulative effect of accounting change	—	(1,040)	—	—	(1,040)
Balance at December 31, 2008	$218	(1)	(39)	(108)	70

The components of other comprehensive earnings (loss) are reflected in Liberty's consolidated statements of comprehensive earnings (loss) net of taxes. The following table summarizes the tax effects related to each component of other comprehensive earnings (loss).

	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
	amounts in millions		
Year ended December 31, 2008:			
Foreign currency translation adjustments	$ (74)	28	(46)
Unrealized holding losses on securities arising during period	(1,310)	498	(812)
Reclassification adjustment for holding gains realized in net earnings	(3,226)	1,226	(2,000)
Share of other comprehensive loss of equity affiliates	(69)	26	(43)
Other	(100)	38	(62)
Other comprehensive loss	$(4,779)	1,816	(2,963)
Year ended December 31, 2007:			
Foreign currency translation adjustments	$ 153	(58)	95
Unrealized holding losses on securities arising during period	(2,510)	954	(1,556)
Reclassification adjustment for holding gains realized in net earnings	(605)	230	(375)
Share of other comprehensive earnings of equity affiliates	5	(2)	3
Other	(74)	28	(46)
Other comprehensive loss	$(3,031)	1,152	(1,879)
Year ended December 31, 2006:			
Foreign currency translation adjustments	$ 177	(67)	110
Unrealized holding gains on securities arising during period	4,202	(1,597)	2,605
Reclassification adjustment for holding gains realized in net loss	(298)	113	(185)
Share of other comprehensive earnings of equity affiliates	2	(1)	1
Other comprehensive earnings	$ 4,083	(1,552)	2,531

(19) Transactions with Related Parties

During the period from February 27, 2008 to December 31, 2008, subsidiaries of Liberty recognized aggregate revenue of $264 million from DIRECTV for distribution of their programming. In addition, subsidiaries of Liberty made aggregate payments of $31 million to DIRECTV for carriage and marketing.

Starz Entertainment pays Revolution Studios ("Revolution"), an equity affiliate, fees for the rights to exhibit films produced by Revolution. Payments aggregated $46 million, $58 million and $69 million in 2008, 2007 and 2006, respectively.

(20) Commitments and Contingencies

Film Rights

Starz Entertainment, a wholly-owned subsidiary of Liberty, provides premium video programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States. Starz Entertainment has entered into agreements with a number of motion picture producers which obligate Starz Entertainment to pay fees ("Programming Fees") for the rights to exhibit certain films that are released by these producers. The unpaid balance of Programming Fees for films that were available for exhibition by Starz Entertainment at December 31, 2008 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2008 is payable as follows: $95 million in 2009 and $7 million in 2010.

Starz Entertainment has also contracted to pay Programming Fees for films that have been released theatrically, but are not available for exhibition by Starz Entertainment until some future date. These amounts have not been accrued at December 31, 2008. Starz Entertainment's estimate of amounts payable under these agreements is as follows: $438 million in 2009; $172 million in 2010; $99 million in 2011; $94 million in 2012; $83 million in 2013 and $214 million thereafter.

In addition, Starz Entertainment is also obligated to pay Programming Fees for all qualifying films that are released theatrically in the United States by studios owned by The Walt Disney Company ("Disney") through 2012 and all qualifying films that are released theatrically in the United States by studios owned by Sony Pictures Entertainment ("Sony") through 2016. Films are generally available to Starz Entertainment for exhibition 10-12 months after their theatrical release. The Programming Fees to be paid by Starz Entertainment are based on the quantity and the domestic theatrical exhibition receipts of qualifying films. As these films have not yet been released in theatres, Starz Entertainment is unable to estimate the amounts to be paid under these output agreements. However, such amounts are expected to be significant. In February 2009, Disney announced that it has agreed to enter into a long-term distribution arrangement with DreamWorks Studios. Under the terms of this arrangement, Disney will handle distribution and marketing for approximately six DreamWorks films each year. As a result of this arrangement, the number of qualifying films under Starz Entertainment's output agreement with Disney may be higher than it would have been otherwise.

In connection with an option exercised by Sony to extend the Sony contract through 2013, Starz Entertainment has agreed to pay Sony a total of $190 million in four annual installments of $47.5 million beginning in 2011. Starz Entertainment's payments to Sony will be amortized ratably as programming expense over the three-year period beginning when Starz Entertainment receives the first qualifying film released theatrically by Sony in 2011. In December 2008, Starz Entertainment entered into a new agreement with Sony for theatrical releases through 2016. Under the extension, Starz Entertainment has agreed to pay Sony $120 million in three equal annual installments beginning in 2015. Such payments will be amortized ratably as programming expense over the three-year period beginning when Starz Entertainment receives the first qualifying film released theatrically by Sony in 2014.

Guarantees

Liberty guarantees Starz Entertainment's obligations under certain of its studio output agreements. At December 31, 2008, Liberty's guarantees for obligations for films released by such date aggregated $756 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, Starz Entertainment has recognized the liability for a portion of its obligations under the output agreements. As this represents a direct commitment of Starz Entertainment, a consolidated subsidiary of Liberty, Liberty has not recorded a separate indirect liability for its guarantee of these obligations.

In connection with agreements for the sale of certain assets, Liberty typically retains liabilities that relate to events occurring prior to its sale, such as tax, environmental, litigation and employment matters. Liberty generally indemnifies the purchaser in the event that a third party asserts a claim against the purchaser that relates to a liability retained by Liberty. These types of indemnification guarantees typically extend for a number of years. Liberty is unable to estimate the maximum potential liability for these types of indemnification guarantees as the sale agreements typically do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, Liberty has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

Sports Rights

Liberty Sports Group has entered into agreements with various professional and collegiate sports teams and leagues to purchase the rights to broadcast games through 2020. At December 31, 2008, such commitments aggregated $1,558 million and are due as follows: $160 million in 2009; $134 million in 2010; $133 million in 2011; $121 million in 2012; $105 million in 2013 and $905 million thereafter.

Employment Contracts

The Atlanta Braves and certain of their players and coaches have entered into long-term employment contracts whereby such individuals' compensation is guaranteed. Amounts due under guaranteed contracts as of December 31, 2008 aggregated $187 million, which is payable as follows: $81 million in 2009, $47 million in 2010, $35 million in 2011 and $24 million in 2012. In addition to the foregoing amounts, certain players and coaches may earn incentive compensation under the terms of their employment contracts.

Operating Leases

Liberty leases business offices, has entered into satellite transponder lease agreements and uses certain equipment under lease arrangements. Rental expense under such arrangements amounted to $52 million, $45 million and $32 million for the years ended December 31, 2008, 2007 and 2006, respectively.

A summary of future minimum lease payments under noncancelable operating leases as of December 31, 2008 follows (amounts in millions):

Years ending December 31:	
2009	$37
2010	$33
2011	$28
2012	$23
2013	$21
Thereafter	$75

It is expected that in the normal course of business, leases that expire generally will be renewed or replaced by leases on other properties; thus, it is anticipated that future lease commitments will not be less than the amount shown for 2008.

Litigation

Liberty has contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible Liberty may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying consolidated financial statements.

Other

During the period from March 9, 1999 to August 10, 2001, Liberty was included in the consolidated federal income tax return of AT&T and was a party to a tax sharing agreement with AT&T (the "AT&T Tax Sharing Agreement"). Pursuant to the AT&T Tax Sharing Agreement and in connection with Liberty's split off from AT&T in 2001, AT&T was required to pay Liberty an amount equal to 35% of the amount of the net operating losses reflected in TCI's final federal income tax return ("TCI NOLs") that had not been used as an offset to Liberty's obligations under the AT&T Tax Sharing Agreement and that had been, or were reasonably expected to be, utilized by AT&T.

AT&T has requested a refund from Liberty of $91 million, plus accrued interest, relating to losses that it generated and was able to carry back to offset taxable income previously offset by Liberty's losses. AT&T has asserted that Liberty's losses caused AT&T to pay alternative minimum tax ("AMT") that it would not have been otherwise required to pay had Liberty's losses not been included in its return. Liberty has accrued approximately $70 million representing its estimate of the amount it may ultimately pay (excluding accrued interest, if any) to AT&T as a result of these requests. Although Liberty has not reduced its accrual for any future refunds, Liberty believes it is entitled to a refund when AT&T is able to realize a benefit in the form of a credit for the AMT previously paid.

Although for accounting purposes Liberty has accrued a portion of the amounts claimed by AT&T to be owed by Liberty under the AT&T Tax Sharing Agreement, Liberty believes there are valid defenses or set-off or similar rights in its favor that may cause the total amount that it owes AT&T to be less than the amounts accrued; and under certain interpretations of the AT&T Tax Sharing Agreement, Liberty may be entitled to further reimbursements from AT&T.

(21) Information About Liberty's Operating Segments

Liberty, through its ownership interests in subsidiaries and other companies, is primarily engaged in the video and on-line commerce, media, communications and entertainment industries. Liberty has attributed each of its businesses to one of three groups: the Interactive Group, the Entertainment Group and the Capital Group. Each of the businesses in the tracking stock groups is separately managed. Liberty identifies its reportable segments as (A) those consolidated subsidiaries that represent 10% or more of its consolidated revenue, pre-tax earnings or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of Liberty's pre-tax earnings. The segment presentation for prior periods has been conformed to the current period segment presentation.

Liberty evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as revenue, Adjusted OIBDA, gross margin, average sales price per unit, number of units shipped and revenue or sales per customer equivalent. In addition, Liberty reviews nonfinancial measures such as subscriber growth, penetration, website visitors, conversion rates and active customers, as appropriate.

Liberty defines Adjusted OIBDA as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock-based compensation). Liberty believes this measure is an important indicator of the operational strength and performance of its businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock-based compensation, separately reported litigation settlements and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. Liberty generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

For the year ended December 31, 2008, Liberty has identified the following businesses as its reportable segments:

- QVC—consolidated subsidiary included in the Interactive Group that markets and sells a wide variety of consumer products in the United States and several foreign countries, primarily by means of televised shopping programs on the QVC networks and via the Internet through its domestic and international websites.
- Starz Entertainment—consolidated subsidiary included in the Entertainment Group that provides premium programming distributed by cable operators, direct-to-home satellite providers, telephone companies, other distributors and the Internet throughout the United States.
- Starz Media—consolidated subsidiary included in the Capital Group that develops, acquires, produces and distributes live-action and animated films and television productions for the home video, film, broadcast and direct-to-consumer markets.
- DIRECTV—equity affiliate attributed to the Entertainment Group that provides digital television entertainment delivered by satellite in the United States and Latin America.

- Expedia—equity affiliate attributed to the Interactive Group that provides travel services to leisure and corporate travelers.

Liberty's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technologies, distribution channels and marketing strategies. The accounting policies of the segments that are also consolidated subsidiaries are the same as those described in the summary of significant policies.

Performance Measures

	Years ended December 31,					
	2008		2007		2006	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
	amounts in millions					
Interactive Group						
QVC	$ 7,303	1,502	7,397	1,652	7,074	1,656
Corporate and other	776	53	405	32	252	24
	8,079	1,555	7,802	1,684	7,326	1,680
Entertainment Group						
Starz Entertainment	1,111	301	1,066	264	1,033	186
Corporate and other	280	23	70	(9)	42	(18)
	1,391	324	1,136	255	1,075	168
Capital Group						
Starz Media	321	(189)	254	(143)	86	(24)
Corporate and other	296	(105)	231	(67)	126	(41)
	617	(294)	485	(210)	212	(65)
Inter-group eliminations	(3)	(3)	—	—	—	—
Consolidated Liberty	$10,084	1,582	9,423	1,729	8,613	1,783
Equity Affiliates						
DIRECTV	$19,693	5,015				
Expedia	$ 2,937	636	2,665	607	2,238	509

Other Information

	December 31,					
	2008			2007		
	Total assets	Investments in affiliates	Capital expenditures	Total assets	Investments in affiliates	Capital expenditures
	amounts in millions					
Interactive Group						
QVC	$21,567	8	144	20,620	—	276
Corporate and other	3,755	893	22	5,430	1,311	13
Intra-group eliminations	(7,835)	—	—	(6,724)	—	—
	17,487	901	166	19,326	1,311	289
Entertainment Group						
Starz Entertainment	1,462	—	7	2,773	—	10
Corporate and other	14,860	13,366	1	11,035	249	1
	16,322	13,366	8	13,808	249	11
Capital Group						
Starz Media	654	—	3	661	—	5
Corporate and other	7,707	223	26	12,018	257	11
	8,361	223	29	12,679	257	16
Inter-group eliminations	(267)	—	—	(164)	—	—
Consolidated Liberty	$41,903	14,490	203	45,649	1,817	316
Equity Affiliates						
DIRECTV	$16,539		2,229			
Expedia	$ 5,894		160	8,295		87

The following table provides a reconciliation of segment Adjusted OIBDA to earnings from continuing operations before income taxes and minority interest:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Consolidated segment Adjusted OIBDA	$ 1,582	1,729	1,783
Stock-based compensation	(50)	(93)	(67)
Depreciation and amortization	(710)	(675)	(582)
Impairment of long-lived assets	(1,569)	(223)	(113)
Interest expense	(719)	(641)	(680)
Share of earnings (losses) of affiliates	(838)	22	91
Realized and unrealized gains (losses) on derivative instruments, net	(34)	1,269	(279)
Gains on dispositions, net	3,679	646	607
Other than temporary declines in fair value of investments	(441)	(33)	(4)
Other, net	343	320	232
Earnings from continuing operations before income taxes and minority interest	$ 1,243	2,321	988

Revenue by Geographic Area

Revenue by geographic area based on the location of customers is as follows:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
United States	$ 7,582	7,183	6,504
Germany	956	870	848
Other foreign countries	1,546	1,370	1,261
Consolidated Liberty	$10,084	9,423	8,613

Long-lived Assets by Geographic Area

	December 31,	
	2008	2007
	amounts in millions	
United States	$ 772	803
Germany	269	263
Other foreign countries	290	285
Consolidated Liberty	$1,331	1,351

(22) Quarterly Financial Information (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	amounts in millions, except per share amounts			
2008:				
Revenue	$2,351	2,487	2,378	2,868
Operating income (loss)	$ 230	229	57	(1,263)
Earnings (loss) from continuing operations	$5,457	125	(248)	(1,855)
Net earnings (loss):				
Series A and Series B Liberty Capital common stock	$ (105)	(30)	(110)	(279)
Series A and Series B Liberty Entertainment common stock	$ 35	63	147	(861)
Series A and Series B Liberty Interactive common stock	$ 125	92	(283)	(715)
Old Series A and Series B Liberty Capital common stock	$5,402	—	—	—
Basic earnings (loss) from continuing operations per common share:				
Series A and Series B Liberty Capital common stock	$ (.81)	(.24)	(1.01)	(2.85)
Series A and Series B Liberty Entertainment common stock	$ .07	.12	.28	(1.67)
Series A and Series B Liberty Interactive common stock	$ .21	.15	(.48)	(1.20)
Old Series A and Series B Liberty Capital common stock	$41.88	—	—	—
Diluted earnings (loss) from continuing operations per common share:				
Series A and Series B Liberty Capital common stock	$ (.81)	(.24)	(1.01)	(2.85)
Series A and Series B Liberty Entertainment common stock	$ .07	.12	.28	(1.66)
Series A and Series B Liberty Interactive common stock	$ .21	.15	(.48)	(1.20)
Old Series A and Series B Liberty Capital common stock	$41.55	—	—	—
Basic net earnings (loss) per common share:				
Series A and Series B Liberty Capital common stock	$ (.81)	(.24)	(1.01)	(2.85)
Series A and Series B Liberty Entertainment common stock	$ .07	.12	.28	(1.67)
Series A and Series B Liberty Interactive common stock	$ .21	.15	(.48)	(1.20)
Old Series A and Series B Liberty Capital common stock	$41.88	—	—	—
Diluted net earnings (loss) per common share:				
Series A and Series B Liberty Capital common stock	$ (.81)	(.24)	(1.01)	(2.85)
Series A and Series B Liberty Entertainment common stock	$ .07	.12	.28	(1.66)
Series A and Series B Liberty Interactive common stock	$ .21	.15	(.48)	(1.20)
Old Series A and Series B Liberty Capital common stock	$41.55	—	—	—

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	amounts in millions, except per share amounts			
2007:				
Revenue	$2,123	2,193	2,251	2,856
Operating income	$ 249	227	199	63
Earnings from continuing operations	$ 327	902	319	417
Net earnings (loss):				
Series A and Series B Liberty Capital common stock	$ 278	907	241	247
Series A and Series B Liberty Interactive common stock	$ 91	102	78	170
Basic earnings (loss) from continuing operations per common share:				
Series A and Series B Liberty Capital common stock	$ 1.68	6.11	1.87	1.91
Series A and Series B Liberty Interactive common stock	$ .14	.16	.12	.28
Diluted earnings (loss) from continuing operations per common share:				
Series A and Series B Liberty Capital common stock	$ 1.68	6.11	1.85	1.90
Series A and Series B Liberty Interactive common stock	$ .14	.16	.12	.28
Basic net earnings (loss) per common share:				
Series A and Series B Liberty Capital common stock	$ 1.98	6.92	1.87	1.91
Series A and Series B Liberty Interactive common stock	$ .14	.16	.12	.28
Diluted net earnings (loss) per common share:				
Series A and Series B Liberty Capital common stock	$ 1.98	6.92	1.85	1.90
Series A and Series B Liberty Interactive common stock	$ .14	.16	.12	.28

Unaudited Attributed Financial Information for Tracking Stock Groups

On May 9, 2006, we completed a restructuring and recapitalization pursuant to which we issued two new tracking stocks, one ("Liberty Interactive Stock") intended to reflect the separate performance of our businesses engaged in video and on-line commerce, the second ("Old Liberty Capital Stock") intended to reflect the separate performance of all of our assets and businesses not attributed to the Interactive Group. Each share of our existing Series A and Series B common stock was exchanged for .25 of a share of the same series of Liberty Interactive Stock and .05 of a share of the same series of Liberty Capital Stock.

On March 3, 2008, we completed a reclassification of our Old Liberty Capital Stock, whereby each share of Old Liberty Capital Stock was reclassified into four shares of the same series of Liberty Entertainment Stock and one share of the same series of Liberty Capital Stock. Our Liberty Entertainment Stock is intended to reflect the separate performance of our Entertainment Group, which is comprised of certain of our businesses previously attributed to the Capital Group and which are engaged in video programming, direct-to-home satellite distribution and communications. Our Capital Group is comprised of our assets and businesses not attributed to either the Interactive Group or the Entertainment Group.

The following tables present our assets, liabilities, revenue, expenses and cash flows as of and for the years ended December 31, 2008, 2007 and 2006. The tables further present our assets, liabilities, revenue, expenses and cash flows that are attributed to the Interactive Group, the Entertainment Group and the Capital Group, respectively. The financial information should be read in conjunction with our audited financial statements for the years ended December 31, 2008, 2007 and 2006 included in this Annual Report on Form 10-K. The attributed financial information presented in the tables has been prepared assuming the restructuring and the reclassification had been completed as of January 1, 2006.

Notwithstanding the following attribution of assets, liabilities, revenue, expenses and cash flows to the Interactive Group, the Entertainment Group and the Capital Group, our tracking stock capital structure does not affect the ownership or the respective legal title to our assets or responsibility for our liabilities. We and our subsidiaries each continue to be responsible for our respective liabilities. Holders of Liberty Interactive Stock, Liberty Entertainment Stock and Liberty Capital Stock are holders of our common stock and continue to be subject to risks associated with an investment in our company and all of our businesses, assets and liabilities. The issuance of Liberty Interactive Stock, Liberty Entertainment Stock and Liberty Capital Stock does not affect the rights of our creditors.

SUMMARY ATTRIBUTED FINANCIAL DATA

Interactive Group

	December 31,		
	2008	2007	2006
	amounts in millions		
Summary Balance Sheet Data:			
Current assets	$ 3,282	2,921	2,984
Cost investments	$ 739	2,044	2,572
Equity investments	$ 901	1,311	1,358
Total assets	$17,487	19,326	19,820
Long-term debt, including current portion	$ 7,131	7,177	6,383
Deferred income tax liabilities, noncurrent	$ 1,999	2,670	3,057
Attributed net assts	$ 6,303	7,530	8,561

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Summary Operations Data:			
Revenue	$ 8,079	7,802	7,326
Cost of goods sold	(5,224)	(4,925)	(4,565)
Operating expenses	(748)	(712)	(668)
Selling, general and administrative expenses(1)	(584)	(516)	(472)
Depreciation and amortization	(561)	(536)	(491)
Impairment of long-lived assets	(56)	—	—
Operating income	906	1,113	1,130
Interest expense	(473)	(465)	(417)
Share of earnings (losses) of affiliates	(1,192)	77	47
Other than temporary declines in fair value of investments	(440)	—	—
Other income (expense), net	(39)	51	83
Income tax benefit (expense)	493	(306)	(210)
Minority interests in earnings of subsidiaries	(36)	(29)	(35)
Earnings (loss) before cumulative effect of accounting change	(781)	441	598
Cumulative effect of accounting change, net of taxes	—	—	(87)
Net earnings (loss)	$ (781)	441	511

(1) Includes stock-based compensation of $32 million, $35 million and $59 million for the years ended December 31, 2008, 2007 and 2006, respectively.

SUMMARY ATTRIBUTED FINANCIAL DATA

Entertainment Group

	December 31, 2008	2007	2006
	amounts in millions		
Summary Balance Sheet Data:			
Current assets	$ 1,631	793	804
Cost investments	$ 2	10,652	11,160
Equity investments	$13,366	249	253
Total assets	$16,322	13,808	14,340
Long-term debt, including current portion	$ 2,033	473	176
Deferred income tax liabilities, noncurrent	$ 1,735	3,521	3,703
Attributed net assts	$12,180	9,457	9,797

	Years ended December 31, 2008	2007	2006
	amounts in millions		
Summary Operations Data:			
Revenue	$ 1,391	1,136	1,075
Operating expenses	(863)	(728)	(768)
Selling, general and administrative expenses(1)	(220)	(199)	(141)
Depreciation and amortization	(48)	(37)	(41)
Impairment of long-lived assets	(1,262)	(41)	(113)
Operating income (loss)	(1,002)	131	12
Interest expense	(74)	(25)	(31)
Share of earnings of affiliates	418	13	14
Gains (losses) on dispositions of assets, net	3,661	(1)	—
Other income, net	502	74	25
Income tax benefit (expense)	1,347	(77)	(43)
Minority interests in losses of subsidiaries	—	21	10
Earnings (loss) before cumulative effect of accounting change	4,852	136	(13)
Cumulative effect of accounting change, net of taxes	—	—	(2)
Net earnings (loss)	$ 4,852	136	(15)

(1) Includes stock-based compensation of $16 million, $46 million and $2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

SUMMARY ATTRIBUTED FINANCIAL DATA

Capital Group

	December 31,		
	2008	2007	2006
	amounts in millions		
Summary Balance Sheet Data:			
Current assets	$2,973	2,759	2,972
Cost investments	$2,118	4,873	7,890
Total assets	$8,361	12,679	13,509
Long-term debt, including current portion	$3,063	4,065	2,464
Deferred income tax liabilities, noncurrent	$1,166	2,267	2,901
Attributed net assets	$1,121	2,599	3,275

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Summary Operations Data:			
Revenue	$ 617	485	212
Operating expenses	(515)	(480)	(164)
Selling, general and administrative expenses(1)	(398)	(227)	(119)
Depreciation and amortization	(101)	(102)	(50)
Impairment of long-lived assets	(251)	(182)	—
Operating loss	(648)	(506)	(121)
Interest expense	(172)	(151)	(232)
Realized and unrealized gains (losses) on derivative instruments, net	(292)	1,261	(268)
Gain on dispositions, net	16	635	607
Other income, net	75	114	139
Income tax benefit	439	62	1
Minority interests in earnings of subsidiaries	(8)	(27)	(2)
Earnings (loss) from continuing operations	(590)	1,388	124
Earnings from discontinued operations, net of taxes	—	149	220
Net earnings (loss)	$(590)	1,537	344

(1) Includes stock-based compensation of $2 million, $12 million and $6 million for the years ended December 31, 2008, 2007 and 2006, respectively.

BALANCE SHEET INFORMATION
December 31, 2008
(unaudited)

	Attributed (note 1)				
	Interactive Group	Entertainment Group	Capital Group	Inter-group eliminations	Consolidated Liberty
	amounts in millions				
Assets					
Current assets:					
Cash and cash equivalents	$ 832	807	1,496	—	3,135
Trade and other receivables, net	1,171	236	156	—	1,563
Inventory, net	1,032	—	—	—	1,032
Program rights	—	498	—	(1)	497
Financial instruments	—	38	1,119	—	1,157
Current deferred tax assets	201	47	—	(248)	—
Other current assets	46	5	202	(18)	235
Total current assets	3,282	1,631	2,973	(267)	7,619
Investments in available-for-sale securities and other cost investments (note 2)	739	2	2,118	—	2,859
Long-term financial instruments	—	162	1,166	—	1,328
Investments in affiliates, accounted for using the equity method (note 3)	901	13,366	223	—	14,490
Property and equipment, net	1,064	120	147	—	1,331
Goodwill	5,859	486	205	—	6,550
Trademarks	2,491	6	14	—	2,511
Other non-amortizable intangibles	—	—	158	—	158
Intangible assets subject to amortization, net	3,115	144	230	—	3,489
Other assets, at cost, net of accumulated amortization	36	405	1,127	—	1,568
Total assets	$17,487	16,322	8,361	(267)	41,903
Liabilities and Equity					
Current liabilities:					
Accounts payable	$ 513	13	24	—	550
Accrued interest	57	—	46	—	103
Other accrued liabilities	684	150	166	(1)	999
Intergroup payable/receivable	71	15	(86)	—	—
Financial instruments	155	—	398	—	553
Current portion of debt (note 4)	175	256	437	—	868
Accrued stock compensation	17	176	3	—	196
Current deferred tax liabilities	—	—	1,029	(248)	781
Other current liabilities	38	7	68	(15)	98
Total current liabilities	1,710	617	2,085	(264)	4,148
Long-term debt (note 4)	6,956	1,777	2,626	—	11,359
Long-term financial instruments	178	—	11	—	189
Deferred income tax liabilities (note 6)	1,999	1,735	1,166	—	4,900
Other liabilities	187	13	1,351	(1)	1,550
Total liabilities	11,030	4,142	7,239	(265)	22,146
Minority interests in equity of subsidiaries	154	—	1	—	155
Equity/Attributed net assets	6,303	12,180	1,121	(2)	19,602
Total liabilities and equity	$17,487	16,322	8,361	(267)	41,903

BALANCE SHEET INFORMATION
December 31, 2007
(unaudited)

	Attributed (note 1)				
	Interactive Group	Entertainment Group	Capital Group	Inter-group eliminations	Consolidated Liberty
	amounts in millions				
Assets					
Current assets:					
Cash and cash equivalents	$ 557	90	2,488	—	3,135
Trade and other receivables, net	1,179	183	155	—	1,517
Inventory, net	975	—	—	—	975
Program rights	—	515	—	—	515
Financial instruments	—	—	23	—	23
Current deferred tax assets	149	—	—	(149)	—
Other current assets	61	5	93	(15)	144
Total current assets	2,921	793	2,759	(164)	6,309
Investments in available-for-sale securities and other cost investments (note 2)	2,044	10,652	4,873	—	17,569
Long-term financial instruments	14	29	1,547	—	1,590
Investments in affiliates, accounted for using the equity method (note 3)	1,311	249	257	—	1,817
Investment in special purpose entity	—	—	750	—	750
Property and equipment, net	1,074	129	148	—	1,351
Goodwill	5,928	1,500	427	—	7,855
Trademarks	2,489	8	18	—	2,515
Other non-amortizable intangibles	—	—	173	—	173
Intangible assets subject to amortization, net	3,502	46	315	—	3,863
Other assets, at cost, net of accumulated amortization	43	402	1,412	—	1,857
Total assets	$19,326	13,808	12,679	(164)	45,649
Liabilities and Equity					
Current liabilities:					
Accounts payable	$ 571	6	28	—	605
Accrued interest	100	8	40	—	148
Other accrued liabilities	644	148	144	—	936
Intergroup payable/receivable	95	(1)	(94)	—	—
Financial instruments	16	—	1,190	—	1,206
Current portion of debt (note 4)	13	3	175	—	191
Accrued stock compensation	20	164	23	—	207
Current deferred tax liabilities	—	—	242	(149)	93
Other current liabilities	46	6	51	(15)	88
Total current liabilities	1,505	334	1,799	(164)	3,474
Long-term debt (note 4)	7,164	470	3,890	—	11,524
Long-term financial instruments	79	—	97	—	176
Deferred income tax liabilities (note 6)	2,670	3,521	2,267	—	8,458
Other liabilities	271	26	1,268	—	1,565
Total liabilities	11,689	4,351	9,321	(164)	25,197
Minority interests in equity of subsidiaries	107	—	759	—	866
Equity/Attributed net assets	7,530	9,457	2,599	—	19,586
Total liabilities and equity	$19,326	13,808	12,679	(164)	45,649

STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION
Year ended December 31, 2008
(unaudited)

	Attributed (note 1) Interactive Group	Entertainment Group	Capital Group	Inter-group eliminations	Consolidated Liberty
	amounts in millions				
Revenue:					
Net retail sales	$ 8,079	—	—	—	8,079
Communications and programming services	—	1,391	617	(3)	2,005
	8,079	1,391	617	(3)	10,084
Operating costs and expenses:					
Cost of sales	5,224	—	—	—	5,224
Operating	748	863	515	—	2,126
Selling, general and administrative, including stock-based compensation (notes 1 and 5)	584	220	398	—	1,202
Depreciation and amortization	561	48	101	—	710
Impairment of long-lived assets	56	1,262	251	—	1,569
	7,173	2,393	1,265	—	10,831
Operating income (loss)	906	(1,002)	(648)	(3)	(747)
Other income (expense):					
Interest expense	(473)	(74)	(172)	—	(719)
Dividend and interest income	22	16	136	—	174
Share of earnings (losses) of affiliates, net	(1,192)	418	(64)	—	(838)
Realized and unrealized gains (losses) on financial instruments, net	(240)	498	(292)	—	(34)
Gains on dispositions of assets, net	2	3,661	16	—	3,679
Other than temporary declines in fair value of investments	(440)	—	(1)	—	(441)
Gain on early extinguishment of debt	240	—	—	—	240
Other, net	(63)	(12)	4	—	(71)
	(2,144)	4,507	(373)	—	1,990
Earnings (loss) before income taxes and minority interests	(1,238)	3,505	(1,021)	(3)	1,243
Income tax benefit (note 6)	493	1,347	439	1	2,280
Minority interests in earnings of subsidiaries	(36)	—	(8)	—	(44)
Net earnings (loss)	$ (781)	4,852	(590)	(2)	3,479
Other comprehensive earnings (loss), net of taxes:					
Foreign currency translation adjustments	(37)	—	(9)	—	(46)
Unrealized holding losses arising during the period	(498)	(312)	(2)	—	(812)
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	272	(2,273)	1	—	(2,000)
Share of other comprehensive earnings of equity affiliates	(10)	(33)	—	—	(43)
Other	(60)	—	(2)	—	(62)
Other comprehensive loss	(333)	(2,618)	(12)	—	(2,963)
Comprehensive earnings (loss)	$(1,114)	2,234	(602)	(2)	516

STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION
Year ended December 31, 2007
(unaudited)

	Attributed (note 1)			
	Interactive Group	Entertainment Group	Capital Group	Consolidated Liberty
		amounts in millions		
Revenue:				
Net retail sales	$7,802	—	—	7,802
Communications and programming services	—	1,136	485	1,621
	7,802	1,136	485	9,423
Operating costs and expenses:				
Cost of sales	4,925	—	—	4,925
Operating	712	728	480	1,920
Selling, general and administrative, including stock-based compensation (notes 1 and 5)	516	199	227	942
Depreciation and amortization	536	37	102	675
Impairment of long-lived assets	—	41	182	223
	6,689	1,005	991	8,685
Operating income (loss)	1,113	131	(506)	738
Other income (expense):				
Interest expense	(465)	(25)	(151)	(641)
Dividend and interest income	44	60	217	321
Share of earnings (losses) of affiliates, net	77	13	(68)	22
Realized and unrealized gains (losses) on financial instruments, net	(6)	14	1,261	1,269
Gains (losses) on dispositions of assets, net	12	(1)	635	646
Other than temporary declines in fair value of investments	—	—	(33)	(33)
Other, net	1	—	(2)	(1)
	(337)	61	1,859	1,583
Earnings from continuing operations before income taxes and minority interests	776	192	1,353	2,321
Income tax benefit (expense) (note 6)	(306)	(77)	62	(321)
Minority interests in losses (earnings) of subsidiaries	(29)	21	(27)	(35)
Earnings from continuing operations	441	136	1,388	1,965
Earnings from discontinued operations, net of taxes	—	—	149	149
Net earnings	$ 441	136	1,537	2,114
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	96	—	(1)	95
Unrealized holding losses arising during the period	(394)	(317)	(845)	(1,556)
Recognition of previously unrealized gains on available-for-sale securities, net	—	—	(375)	(375)
Share of other comprehensive earnings of equity affiliates	3	—	—	3
Other	(46)	—	—	(46)
Other comprehensive loss	(341)	(317)	(1,221)	(1,879)
Comprehensive earnings (loss)	$ 100	(181)	316	235

STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS INFORMATION
Year ended December 31, 2006
(unaudited)

	Attributed (note 1)			
	Interactive Group	Entertainment Group	Capital Group	Consolidated Liberty
	amounts in millions			
Revenue:				
Net retail sales	$7,326	—	—	7,326
Communications and programming services	—	1,075	212	1,287
	7,326	1,075	212	8,613
Operating costs and expenses:				
Cost of sales	4,565	—	—	4,565
Operating	668	768	164	1,600
Selling, general and administrative, including stock-based compensation (notes 1 and 5)	472	141	119	732
Depreciation and amortization	491	41	50	582
Impairment of long-lived assets	—	113	—	113
	6,196	1,063	333	7,592
Operating income (loss)	1,130	12	(121)	1,021
Other income (expense):				
Interest expense	(417)	(31)	(232)	(680)
Dividend and interest income	40	61	113	214
Share of earnings of affiliates, net	47	14	30	91
Realized and unrealized gains (losses) on financial instruments, net	20	(31)	(268)	(279)
Gains on dispositions of assets, net	—	—	607	607
Other than temporary declines in fair value of investments	—	—	(4)	(4)
Other, net	23	(5)	—	18
	(287)	8	246	(33)
Earnings from continuing operations before income taxes and minority interests	843	20	125	988
Income tax benefit (expense) (note 6)	(210)	(43)	1	(252)
Minority interests in losses (earnings) of subsidiaries	(35)	10	(2)	(27)
Earnings (loss) from continuing operations	598	(13)	124	709
Earnings from discontinued operations, net of taxes	—	—	220	220
Cumulative effect of accounting change, net of taxes	(87)	(2)	—	(89)
Net earnings (loss)	$ 511	(15)	344	840
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	108	3	(1)	110
Unrealized holding gains arising during the period	351	1,851	403	2,605
Recognition of previously unrealized gains on available-for-sale securities, net	—	—	(185)	(185)
Share of other comprehensive earnings of equity affiliates	1	—	—	1
Other comprehensive earnings	460	1,854	217	2,531
Comprehensive earnings	$ 971	1,839	561	3,371

STATEMENT OF CASH FLOWS INFORMATION
Year ended December 31, 2008
(unaudited)

	Attributed (note 1)				
	Interactive Group	Entertainment Group	Capital Group	Inter-group eliminations	Consolidated Liberty
	amounts in millions				
Cash flows from operating activities:					
Net earnings (loss)	$ (781)	4,852	(590)	(2)	3,479
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	561	48	101	—	710
Impairment of long-lived assets	56	1,262	251	—	1,569
Stock-based compensation	32	16	2	—	50
Cash payments for stock-based compensation	(9)	(14)	(1)	—	(24)
Noncash interest expense	7	51	1	—	59
Share of losses (earnings) of affiliates, net	1,192	(418)	64	—	838
Realized and unrealized losses (gains) on financial instruments, net	240	(498)	292	—	34
Gains on dispositions of assets, net	(2)	(3,661)	(16)	—	(3,679)
Other than temporary declines in fair value of investments	440	—	1	—	441
Minority interests in earnings of subsidiaries	36	—	8	—	44
Deferred income tax benefit	(828)	(1,433)	(300)	—	(2,561)
Other noncash charges (credits), net	(178)	—	98	—	(80)
Intergroup tax allocation	239	83	(322)	—	—
Intergroup tax payments	(190)	(81)	271	—	—
Other intergroup cash transfers, net	(68)	9	59	—	—
Changes in operating assets and liabilities, net of the effects of acquisitions:					
Current assets	(74)	23	(132)	3	(180)
Payables and other current liabilities	(165)	(13)	123	(1)	(56)
Net cash provided (used) by operating activities	508	226	(90)	—	644
Cash flows from investing activities:					
Cash proceeds from dispositions	18	8	17	—	43
Proceeds from settlement of derivatives	—	45	33	—	78
Cash received in exchange transactions	—	463	—	—	463
Cash paid for acquisitions, net of cash acquired	(69)	(7)	(1)	—	(77)
Investment in and loans to cost and equity investees	(340)	(1,996)	(232)	—	(2,568)
Capital expenditures	(166)	(8)	(29)	—	(203)
Net purchases of short term investments	—	—	(25)	—	(25)
Net decrease in restricted cash	—	—	383	—	383
Other investing activities, net	16	(13)	(74)	—	(71)
Net cash provided (used) by investing activities	(541)	(1,508)	72	—	(1,977)
Cash flows from financing activities:					
Borrowings of debt	1,483	2,159	1,548	—	5,190
Repayments of debt	(1,437)	(232)	(1,323)	—	(2,992)
Repurchases of Liberty common stock	(75)	—	(462)	—	(537)
Settlement of financial instruments	(56)	(13)	(277)	—	(346)
Intergroup cash transfers, net	—	450	(450)	—	—
Reattribution of cash	380	(380)	—	—	—
Other financing activities, net	(17)	15	3	—	1
Net cash provided (used) by financing activities	278	1,999	(961)	—	1,316
Effect of foreign currency rates on cash	30	—	(13)	—	17
Net increase (decrease) in cash and cash equivalents	275	717	(992)	—	—
Cash and cash equivalents at beginning of year	557	90	2,488	—	3,135
Cash and cash equivalents at end of year	$ 832	807	1,496	—	3,135

STATEMENT OF CASH FLOWS INFORMATION
Year ended December 31, 2007
(unaudited)

	Attributed (note 1)			
	Interactive Group	Entertainment Group	Capital Group	Consolidated Liberty
	amounts in millions			
Cash flows from operating activities:				
Net earnings	$ 441	136	1,537	2,114
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Earnings from discontinued operations	—	—	(149)	(149)
Depreciation and amortization	536	37	102	675
Impairment of long-lived assets	—	41	182	223
Stock-based compensation	35	46	12	93
Cash payments for stock-based compensation	(37)	—	(3)	(40)
Noncash interest expense	4	—	5	9
Share of losses (earnings) of affiliates, net	(77)	(13)	68	(22)
Realized and unrealized losses (gains) on financial instruments, net	6	(14)	(1,261)	(1,269)
Losses (gains) on dispositions of assets, net	(12)	1	(635)	(646)
Other than temporary declines in fair value of investments	—	—	33	33
Minority interests in earnings (losses) of subsidiaries	29	(21)	27	35
Deferred income tax expense (benefit)	(128)	48	200	120
Other noncash charges (credits), net	(1)	—	142	141
Intergroup tax allocation	278	28	(306)	—
Intergroup tax payments	(321)	(50)	371	—
Other intergroup cash transfers, net	54	—	(54)	—
Changes in operating assets and liabilities, net of the effects of acquisitions:				
Current assets	(290)	19	(165)	(436)
Payables and other current liabilities	87	(40)	230	277
Net cash provided by operating activities	604	218	336	1,158
Cash flows from investing activities:				
Cash proceeds from dispositions	12	—	483	495
Net proceeds from settlement of derivatives	—	—	75	75
Cash received in exchange transactions	—	—	1,154	1,154
Cash paid for acquisitions, net of cash acquired	(236)	(105)	(7)	(348)
Investment in special purpose entity	—	—	(750)	(750)
Capital expenditures	(289)	(11)	(16)	(316)
Net sales of short term investments	—	—	34	34
Net increase in restricted stock	—	—	(882)	(882)
Other investing activities, net	(74)	11	(132)	(195)
Net cash used by investing activities	(587)	(105)	(41)	(733)
Cash flows from financing activities:				
Borrowings of debt	1,112	—	757	1,869
Repayments of debt	(332)	(3)	(163)	(498)
Intergroup cash transfers, net	—	(111)	111	—
Repurchases of Liberty common stock	(1,224)	—	(1,305)	(2,529)
Contribution from minority owner	—	—	751	751
Other financing activities, net	28	—	(27)	1
Net cash provided (used) by financing activities	(416)	(114)	124	(406)
Effect of foreign currency rates on cash	10	—	(2)	8
Net cash provided by discontinued operations:				
Cash provided by operating activities	—	—	8	8
Cash used by investing activities	—	—	(9)	(9)
Change in available cash held by discontinued operations	—	—	2	2
Net cash provided by discontinued operations	—	—	1	1
Net increase (decrease) in cash and cash equivalents	(389)	(1)	418	28
Cash and cash equivalents at beginning of year	946	91	2,070	3,107
Cash and cash equivalents at end of year	$ 557	90	2,488	3,135

STATEMENT OF CASH FLOWS INFORMATION
Year ended December 31, 2006
(unaudited)

	Attributed (note 1)			
	Interactive Group	Entertainment Group	Capital Group	Consolidated Liberty
		amounts in millions		
Cash flows from operating activities:				
Net earnings (loss)	$ 511	(15)	344	840
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:				
Earnings from discontinued operations	—	—	(220)	(220)
Cumulative effect of accounting change	87	2	—	89
Depreciation and amortization	491	41	50	582
Impairment of long-lived assets	—	113	—	113
Stock-based compensation	59	2	6	67
Cash payments for stock-based compensation	(111)	—	(4)	(115)
Noncash interest expense	4	1	103	108
Share of earnings of affiliates, net	(47)	(14)	(30)	(91)
Realized and unrealized losses (gains) on financial instruments, net	(20)	31	268	279
Gains on dispositions of assets, net	—	—	(607)	(607)
Other than temporary declines in fair value of investments	—	—	4	4
Minority interests in earnings (losses) of subsidiaries	35	(10)	2	27
Deferred income tax expense (benefit)	(262)	17	(220)	(465)
Other noncash charges (credits), net	(13)	5	52	44
Changes in operating assets and liabilities, net of the effects of acquisitions:				
Current assets	(219)	72	(155)	(302)
Payables and other current liabilities	38	(106)	728	660
Net cash provided by operating activities	553	139	321	1,013
Cash flows from investing activities:				
Cash proceeds from dispositions	—	—	1,322	1,322
Proceeds (payments) from origination of derivatives	(5)	—	64	59
Net proceeds from settlement of derivatives	—	—	101	101
Cash paid for acquisitions, net of cash acquired	(767)	(174)	(266)	(1,207)
Capital expenditures	(259)	(9)	(10)	(278)
Net sales of short term investments	23	—	264	287
Other investing activities, net	(8)	80	(241)	(169)
Net cash provided (used) by investing activities	(1,016)	(103)	1,234	115
Cash flows from financing activities:				
Borrowings of debt	3,227	—	2	3,229
Repayments of debt	(2,188)	(3)	—	(2,191)
Intergroup cash transfers, net	293	(32)	(261)	—
Repurchases of Liberty common stock	(954)	—	—	(954)
Other financing activities, net	68	5	(93)	(20)
Net cash provided (used) by financing activities	446	(30)	(352)	64
Effect of foreign currency rates on cash	18	—	—	18
Net cash provided by discontinued operations:				
Cash provided by operating activities	—	—	62	62
Cash used by investing activities	—	—	(67)	(67)
Cash provided by financing activities	—	—	6	6
Net cash provided by discontinued operations	—	—	1	1
Net increase in cash and cash equivalents	1	6	1,204	1,211
Cash and cash equivalents at beginning of year	945	85	866	1,896
Cash and cash equivalents at end of year	$ 946	91	2,070	3,107

Notes to Attributed Financial Information
(unaudited)

(1) The assets attributed to our Interactive Group as of December 31, 2008 include our consolidated subsidiaries QVC, Inc., Provide Commerce, Inc., Backcountry.com, Inc., Bodybuilding.com, LLC and BuySeasons, Inc., and our noncontrolling interests in IAC/InterActiveCorp, Expedia, Inc., GSI Commerce, Inc., HSN, Inc., Interval Leisure Group, Inc., Ticketmaster Entertainment, Inc. and Tree.com, Inc. Accordingly, the accompanying attributed financial information for the Interactive Group includes the foregoing investments, as well as the assets, liabilities, revenue, expenses and cash flows of QVC, Provide, Backcountry, Bodybuilding and BuySeasons. We have also attributed certain of our debt obligations (and related interest expense) to the Interactive Group based upon a number of factors, including the cash flow available to the Interactive Group and its ability to pay debt service and our assessment of the optimal capitalization for the Interactive Group. The specific debt obligations attributed to each of the Interactive Group, the Entertainment Group and the Capital Group are described in note 4 below. In addition, we have allocated certain corporate general and administrative expenses among the Interactive Group, the Entertainment Group and the Capital Group as described in note 5 below.

The Interactive Group focuses on video and on-line commerce businesses. Accordingly, we expect that businesses that we may acquire in the future that we believe are complementary to this strategy will also be attributed to the Interactive Group.

The Entertainment Group consists of our subsidiaries Starz Entertainment, LLC, FUN Technologies, Inc and Liberty Sports Holdings, LLC, our noncontrolling equity interests in The DIRECTV Group, Inc., GSN, LLC and WildBlue Communications, Inc. and approximately $633 million of corporate cash and cash equivalents. Accordingly, the accompanying attributed financial information for the Entertainment Group includes these investments and the assets, liabilities, revenue, expenses and cash flows of these consolidated subsidiaries. We have also attributed, an equity collar on 98.75 million shares of DIRECTV common stock and $1,981 million of borrowings against the put value of such collar to the Entertainment Group.

The Entertainment Group focuses primarily on programming and communications businesses. Accordingly, we expect that businesses that we may acquire in the future that we believe are complementary to this strategy will also be attributed to the Entertainment Group.

The Capital Group consists of all of our businesses not included in the Interactive Group or the Entertainment Group, including our consolidated subsidiaries Starz Media, LLC, Atlanta National League Baseball Club, Inc., TruePosition, Inc., Leisure Arts, Inc., and WFRV and WJMN Television Station, Inc., and certain cost and equity investments. Accordingly, the accompanying attributed financial information for the Capital Group includes these investments and the assets, liabilities, revenue, expenses and cash flows of these consolidated subsidiaries. In addition, we have attributed to the Capital Group all of our notes and debentures (and related interest expense) that have not been attributed to the Interactive Group or the Entertainment Group. See note 4 below for the debt obligations attributed to the Capital Group.

Any businesses that we may acquire in the future that we do not attribute to the Interactive Group or the Entertainment Group will be attributed to the Capital Group.

While we believe the allocation methodology described above is reasonable and fair to each group, we may elect to change the allocation methodology in the future. In the event we elect to transfer assets or businesses from one group to the other, such transfer would be made on a fair value basis and would be accounted for as a short-term loan unless our board of directors determines to account for it as a long-term loan or through an inter-group interest.

Notes to Attributed Financial Information

(unaudited)

(2) Investments in AFS securities, which are recorded at their respective fair market values, and other cost investments are summarized as follows:

	December 31, 2008	December 31, 2007
	amounts in millions	
Capital Group		
Time Warner Inc.(a)	$1,033	1,695
Sprint Nextel Corporation(a)	160	1,150
Motorola, Inc.(a)	328	1,187
Viacom, Inc.	145	333
Embarq Corporation(a)	157	216
Other AFS equity securities(a)	40	104
Other AFS debt securities	224	156
Other cost investments and related receivables	31	32
Total attributed Capital Group	2,118	4,873
Interactive Group		
IAC/InterActiveCorp	638	1,863
Other AFS securities	101	181
Total attributed Interactive Group	739	2,044
Entertainment Group		
News Corporation	—	10,647
Other	2	5
Total attributed Entertainment Group	2	10,652
Consolidated Liberty	$2,859	17,569

(a) Includes shares pledged as collateral for share borrowing arrangements.

(3) The following table presents information regarding certain equity method investments attributed to each of the Interactive Group and the Entertainment Group:

	December 31, 2008			Share of earnings (losses) Years ended December 31,		
	Percentage ownership	Carrying value	Market value	2008	2007	2006
	dollar amounts in millions					
Interactive Group						
Expedia	24%	$ 559	570	(726)	68	50
Entertainment Group						
DIRECTV	54%	$13,085	12,571	404	—	—

Our share of losses of Expedia for the year ended December 31, 2008 includes the write off of our excess basis in the amount of $119 million.

(4) Debt attributed to the Interactive Group, the Capital Group and the Entertainment Group is comprised of the following:

	December 31, 2008	
	Outstanding principal	Carrying value
	amounts in millions	
Interactive Group		
7.875% Senior Notes due 2009	$ 104	104
7.75% Senior Notes due 2009	13	13
5.7% Senior Notes due 2013	803	801
8.5% Senior Debentures due 2029	287	284
8.25% Senior Debentures due 2030	505	501
3.25% Exchangeable Senior Debentures due 2031	551	138
QVC bank credit facilities	5,230	5,230
Other subsidiary debt	60	60
Total Interactive Group debt	7,553	7,131
Capital Group		
3.125% Exchangeable Senior Debentures due 2023	1,264	918
4% Exchangeable Senior Debentures due 2029	869	256
3.75% Exchangeable Senior Debentures due 2030	810	241
3.5% Exchangeable Senior Debentures due 2031	497	138
Liberty bank facility	750	750
Liberty derivative loan	625	625
Subsidiary debt	135	135
Total Capital Group debt	4,950	3,063
Entertainment Group		
DIRECTV Collar Loan	1,981	1,981
Subsidiary debt	52	52
Total Entertainment Group debt	2,033	2,033
Total debt	$14,536	12,227

(5) Cash compensation expense for our corporate employees has been allocated among the Interactive Group, the Entertainment Group and the Capital Group based on the estimated percentage of time spent providing services for each group. Stock-based compensation expense for our corporate employees has been allocated among the Interactive Group, the Entertainment Group and the Capital Group based on the compensation derived from the equity awards for the respective tracking stock. Other general and administrative expenses are charged directly to the groups whenever possible and are otherwise allocated based on estimated usage or some other reasonably

determined methodology. Amounts allocated from the Capital Group to the Interactive Group and the Entertainment Group, including stock-based compensation, are as follows:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Interactive Group	$19	17	13
Entertainment Group	$11	19	12

While we believe that this allocation method is reasonable and fair to each group, we may elect to change the allocation methodology or percentages used to allocate general and administrative expenses in the future.

(6) We have accounted for income taxes for the Interactive Group, the Entertainment Group and the Capital Group in the accompanying attributed financial information in a manner similar to a stand-alone company basis. To the extent this methodology differs from our tax sharing policy, differences have been reflected in the attributed net assets of the groups.

Interactive Group

The Interactive Group's income tax benefit (expense) consists of:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Current:			
Federal	$(220)	(280)	(305)
State and local	(19)	(64)	(57)
Foreign	(96)	(90)	(110)
	(335)	(434)	(472)
Deferred:			
Federal	708	94	197
State and local	110	33	62
Foreign	10	1	3
	828	128	262
Income tax benefit (expense)	$ 493	(306)	(210)

The Interactive Group's income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Computed expected tax benefit (expense)	$446	(262)	(283)
Change in estimated foreign and state tax rates	4	(6)	132
State and local income taxes, net of federal income taxes	57	(19)	(23)
Foreign taxes, net of foreign tax credits	28	(10)	(20)
Change in valuation allowance affecting tax expense	15	5	(14)
Minority interest	(13)	(10)	(12)
Nondeductible losses related to the Company's common stock	(57)	—	—
Recognition of tax benefits (expense) not previously recognized, net	19	(5)	(5)
Disqualifying disposition of incentive stock options not deductible for book purposes	—	—	14
Other, net	(6)	1	1
Income tax benefit (expense)	$493	(306)	(210)

The tax effects of temporary differences that give rise to significant portions of the Interactive Group's deferred tax assets and deferred tax liabilities are presented below:

	December 31,	
	2008	2007
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 42	43
Accrued stock compensation	11	11
Other accrued liabilities	197	148
Deferred revenue	9	11
Investments	181	—
Other future deductible amounts	121	100
Deferred tax assets	561	313
Valuation allowance	—	(12)
Net deferred tax assets	561	301
Deferred tax liabilities:		
Investments	—	594
Intangible assets	1,959	2,083
Discount on exchangeable debentures	300	—
Other	100	145
Deferred tax liabilities	2,359	2,822
Net deferred tax liabilities	$1,798	2,521

Entertainment Group

The Entertainment Group's income tax benefit (expense) consists of:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Current:			
Federal	$ (74)	(28)	(24)
State and local	(11)	1	—
Foreign	(1)	(2)	(2)
	(86)	(29)	(26)
Deferred:			
Federal	1,276	(38)	(12)
State and local	157	(10)	(5)
Foreign	—	—	—
	1,433	(48)	(17)
Income tax benefit (expense)	$1,347	(77)	(43)

The Entertainment Group's income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Computed expected tax expense	$(1,226)	(75)	(10)
Nontaxable exchange of investments for subsidiaries and cash	2,933	—	—
State and local income taxes, net of federal income taxes	92	(6)	(3)
Change in valuation allowance affecting tax expense	(10)	(4)	(6)
Impairment of goodwill not deductible for tax purposes	(442)	(11)	(39)
Dividends received deduction	—	12	12
Other, net	—	7	3
Income tax benefit (expense)	$ 1,347	(77)	(43)

The tax effects of temporary differences that give rise to significant portions of the Entertainment Group's deferred tax assets and deferred tax liabilities are presented below:

	December 31, 2008	December 31, 2007
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 37	1
Accrued stock compensation	69	65
Intangible assets	—	47
Other future deductible amounts	11	3
Deferred tax assets	117	116
Valuation allowance	(45)	(33)
Net deferred tax assets	72	83
Deferred tax liabilities:		
Investments	1,699	3,396
Discount on exchangeable debentures	—	193
Other	61	15
Deferred tax liabilities	1,760	3,604
Net deferred tax liabilities	$1,688	3,521

Capital Group

The Capital Group's income tax benefit (expense) consists of:

	Years ended December 31, 2008	2007	2006
	amounts in millions		
Current:			
Federal	$127	281	(184)
State and local	9	(18)	(35)
Foreign	3	(1)	—
	139	262	(219)
Deferred:			
Federal	266	(208)	177
State and local	34	8	42
Foreign	—	—	1
	300	(200)	220
Income tax benefit	$439	62	1

Notes to Attributed Financial Information

(unaudited)

The Capital Group's income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Computed expected tax benefit (expense)	$361	(463)	(43)
Nontaxable exchange of investments for subsidiaries and cash	(2)	541	—
State and local income taxes, net of federal income taxes	28	(10)	(8)
Change in valuation allowance affecting tax expense	(3)	(10)	96
Disposition of nondeductible goodwill in sales transaction	—	—	(43)
Recognition of tax benefit not previously recognized, net	56	—	—
Other, net	(1)	4	(1)
Income tax benefit	$439	62	1

The tax effects of temporary differences that give rise to significant portions of the Capital Group's deferred tax assets and deferred tax liabilities are presented below:

	December 31,	
	2008	2007
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 287	271
Accrued liabilities	70	72
Deferred revenue	359	302
Other future deductible amounts	17	68
Deferred tax assets	733	713
Valuation allowance	(17)	(18)
Net deferred tax assets	716	695
Deferred tax liabilities:		
Investments	1,414	1,982
Intangible assets	146	248
Discount on exchangeable debentures	1,351	974
Other	—	—
Deferred tax liabilities	2,911	3,204
Net deferred tax liabilities	$2,195	2,509

(7) The Liberty Interactive Stock, the Liberty Entertainment Stock and the Liberty Capital Stock have voting and conversion rights under our amended charter. Following is a summary of those rights. Holders of Series A common stock of each group are entitled to one vote per share, and holders of Series B common stock of each group are entitled to ten votes per share. Holders of Series C common stock of each group, if issued, will be entitled to 1/100th of a vote per share in certain limited cases and will otherwise not be entitled to vote. In general, holders of Series A and Series B common stock vote as a single class. In certain limited circumstances, the board may elect to seek the approval of the holders of only Series A and Series B Liberty Interactive Stock, the

approval of the holders of only Series A and Series B Liberty Entertainment Stock or the approval of the holders of only Series A and Series B Liberty Capital Stock.

At the option of the holder, each share of Series B common stock will be convertible into one share of Series A common stock of the same group. At the discretion of our board, the common stock related to one group may be converted into common stock of the same series that is related to one of our other groups.

CORPORATE DATA

Board of Directors

John C. Malone
Chairman of the Board
Liberty Media Corporation

Robert R. Bennett
Consultant and Retired President
Liberty Media Corporation

Donne F. Fisher
President
Fisher Capital Partners, Ltd.

Paul A. Gould
Managing Director
Allen & Company LLC

Gregory B. Maffei
President and CEO
Liberty Media Corporation

Dr. Evan D. Malone
Engineering Consultant and Real Estate Investor
1525 South Street LLC

David E. Rapley
President
Rapley Consulting, Inc.

M. LaVoy Robison
Executive Director
The Anschutz Foundation

Larry E. Romrell
Retired Executive Vice President
Tele-Communications, Inc.

Executive Committee

Paul A. Gould
Gregory B. Maffei
John C. Malone

Compensation Committee

Donne F. Fisher
Paul A. Gould
David E. Rapley
M. LaVoy Robison
Larry E. Romrell

Audit Committee

Donne F. Fisher
Paul A. Gould
David E. Rapley
M. LaVoy Robison

Nominating & Corporate Governance Committee:

Donne F. Fisher
Paul A. Gould
David E. Rapley
M. LaVoy Robison
Larry E. Romrell

Incentive Plan Committee:

Donne F. Fisher
Paul A. Gould

Section 16 Exemption Committee:

Donne F. Fisher
Paul A. Gould

Officers

John C. Malone
Chairman of the Board

Gregory B. Maffei
President and CEO

Charles Y. Tanabe
Executive Vice President and General Counsel

Mark D. Carleton
Senior Vice President

William R. Fitzgerald
Senior Vice President

David J. A. Flowers
Senior Vice President and Treasurer

Albert E. Rosenthaler
Senior Vice President

Christopher W. Shean
Senior Vice President and Controller

Michael P. Zeisser
Senior Vice President

Corporate Secretary

Pamela L. Coe

Corporate Headquarters

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Stock Information

Liberty Entertainment Group Series A and B Common Stock (LMDIA/B), Liberty Interactive Group Series A and B Common Stock (LINTA/B), Liberty Capital Group Series A and Series B Common Stock (LCAPA/B) trade on the NASDAQ Global Select Market

CUSIP Numbers

LMDIA—5307 1M 500
LMDIB—53071M 609
LINTA—5307 1M 104
LINTB—53071 M 20 3
LCAPA—53071M 30 2
LCAPB—53071 M 40 1

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Financial Statements:

Liberty Media Corporation financial statements are filed with the Securities and Exchange Commission. Copies of these financial statements can be obtained from the Transfer Agent or through Liberty's web site.

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