LIBERTY INTERACTIVE

ANNUAL REPORT 2011

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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; revenue growth and subscriber trends at QVC, Inc.; losses to be incurred by QVC Italy; the recoverability of our goodwill and other long-lived assets; our projected sources and uses of cash; the creation of the proposed Liberty Ventures common stock; and the anticipated 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 Stockholders" 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:

- 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;
- 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;
- the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate; and
- threatened terrorist attacks and ongoing military action in the Middle East and other parts of the world 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.

LIBERTY
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LETTER TO OUR STOCKHOLDERS

Dear Fellow Stockholders:

We are pleased to present the first stockholder letter from Liberty Interactive as a stand-alone company. It was a long time coming, but in September 2011, we completed the separation of Liberty Interactive from Liberty Media. We were pleased to complete this separation as it brings visibility to the strength of the operating business of QVC and our eCommerce companies and highlights Liberty Interactive as a focused digital commerce company rather than a traditional media company.

To bring further focus, in February 2012 we announced that Liberty Interactive will be recapitalized into two tracking stocks: a new Liberty Interactive and Liberty Ventures. Liberty Interactive will be attributed with our digital commerce businesses (QVC and eCommerce) along with our 34% stake in HSN. Liberty Ventures will be attributed with the remainder of our non-consolidated equity stakes. We believe this new structure will bring added clarity to our digital commerce assets, create stronger acquisition currencies, provide greater access to the capital markets, create improved ability to tailor equity incentives to business performance, and increase stockholder value while maintaining tax efficiency. At Liberty Ventures, we will focus on efficiently monetizing our equity investments and investing that capital in high return projects. A current focus for investing is green energy projects, which can include clean coal, wind power and solar. To date, we have made two investments and are considering a healthy pipeline of additional potential opportunities. For more details on the new tracker, we invite you to review the more extensive documents we have filed with the SEC at www.sec.gov. We anticipate issuing the new tracker in the summer of 2012.

Where We Excel

We believe that we:

- Have a stockholder-centric culture – We think like owners and focus on long-term gains rather than short-term results. The compensation structure of our management team is closely tied to stock price and has a long-term focus, more than is typical for our peers. The senior management team has a significant portion of its net worth tied to Liberty Interactive;
- Are forward-looking – We seek to take advantage of the benefits and minimize the risks associated with the digital transition in our operating businesses;
- Empower management – We invest in strong teams at our operating companies, provide strategic input and capital, and aim to empower them; and
- Demonstrate financial expertise – We have significant experience in mergers, divestitures, investing, tax optimization, capital deployment, and setting creative capital structures.

The Economic Climate

Although recent signs point to some positive momentum, the challenging US economic environment persists. Consumers are bombarded with mixed economic signals that impact their views on discretionary spending. The unemployment rate is finally starting to decline, gas prices are volatile and a recovery in the housing market has taken longer than most anticipated. Tax policy for individuals and businesses will remain in limbo until a new Congress and perhaps new administration are in place, creating further instability. The situation in Europe is arguably worse with many European countries with unsustainable national debt levels and increasingly limited access to the capital markets. Many countries' approach to Europe's recession has mainly focused on austerity measures which have hindered growth and pushed unemployment rates well into the double-digits. We expect the uncertainty in these markets to continue as some countries double-dip into recession while others will not be able to emerge from the recessions they are already in. As always, our managers will focus on the factors under their control – providing customers with products and services at a good value, while also looking for opportunities that emerge from the uncertainty.

What We Did Well

The most significant accomplishment last year was separating Liberty Interactive from Liberty Media, which we discussed above. We expected to see a more positive reaction in the market to this, but when none came, we took the opportunity to repurchase our stock in meaningful amounts. From August 1, 2011 through April 30, 2012 we repurchased over $750 million in Liberty Interactive shares. During the year, we took advantage of periodic market weakness to increase our stake in HSN from 30% to 34%. Those shares were purchased at an average price of $30.55 compared to HSN's price on May 24th of $38.89, and we are pleased with the return to date. At QVC, we continued to pay down the company's revolving credit facility, which resulted in a decreased interest rate and expense.

Where We Could Have Done Better

We would have liked to complete the split-off sooner than the fifteen months that it required. We think this created some uncertainty in the market and impacted our share price last year. While the split-off was a major step in creating focus and clarity for Liberty Interactive, we felt further steps needed to be taken. This is why we announced the creation of the new Liberty Ventures tracking stock.

For many years, we identified Liberty Interactive's only "strategic" equity stake to be HSN, with the goal of tax-efficiently monetizing non-strategic stakes. We recently made some progress on this front in both our Expedia and TripAdvisor holdings. In March 2012, we entered into a forward sale on twelve million of our higher tax basis Expedia shares. This has the potential to monetize approximately a third of our Expedia stake with minimal tax expense. We also sold eight million of our higher tax basis TripAdvisor shares. Certainly we would like to efficiently monetize more of these investments, and we hope to make additional progress on this in 2012.

Stock Performance

Liberty Interactive posted gains of 3% in 2011. While we significantly outperformed market indices and various peer groups in 2011: the S&P Retail Index decreased 4% (down 2% with dividends); and the S&P 500 was about flat (up 2% with dividends), we were not satisfied with the result. The 2012 trend remains positive as well. As of May 24th, 2012, Liberty Interactive was up 6% for 2012. However we believe this equity performance is not commensurate with the strength of our businesses, and is one of the reasons why we announced the recapitalization of Liberty Interactive into two tracking stocks. We will continue to monitor the equity performance and will be opportunistic about repurchases.

QVC

QVC celebrated its 25th anniversary in 2011 and continues to be one of the largest multimedia retailers in the world providing an interactive, entertaining, and high-quality shopping experience for its millions of loyal customers. Mike George and his team again achieved impressive results despite challenging macroeconomic environments in all of the company's markets. QVC's focus on relationships with its customers, be it through hosts, celebrities, inventors, designers, exclusive events or online communities, continues to drive QVC as a global brand.

QVC relentlessly pursues new technology and platforms that create the most relevant and immersive experiences for its customers. In 2011, eCommerce represented over $2.6 billion of worldwide sales, and 4% of total orders came from mobile applications. All markets hit record web penetration levels and QVC's mobile penetration is growing quickly in 2012, fueled by apps for the iPad, iPhone, Android and Blackberry smartphones. In 2011, QVC introduced a Beauty iPhone app, Gift List iPhone app, and a Google TV flagship app, as well as continued technology upgrades to its website, with further enhanced capabilities. QVC provides a great experience across a broad array of mediums including: televisions, computers, smartphones and tablets. We expect the positive trends to continue.

The infusion of big, buzz worthy events into QVC's programming calendar, from *Fashion's Night Out* in New York to *The Food & Wine Classic in Aspen*, is elevating QVC's credibility as a force in fashion and pop culture. And by weaving interactive social elements into weekly shows like *In The Kitchen with David* and *The Lisa Robertson Show*, QVC is building 'destination programming' that is competing head to head with major networks like Food Network and E! for a growing share of the broader TV audience.

2011 was an exciting year for QVC's international businesses. In Japan, QVC celebrated its 10th anniversary. The Japan business rebounded amazingly after the tsunami-related tragedies last March and, in the fourth quarter of 2011 hit an-all-time revenue high. QVC Germany reached $1 billion in revenue in 2011 becoming the third QVC market to do so. Recently, QVC Germany launched a third QVC channel which has a beauty focus and in Germany viewers can now tune into more QVC channels than in any other market. QVC UK has been expanding its brand and product portfolio and diversifying its platforms. In the UK, QVC customers have the option of viewing two broadcast channels and we have given them many buzz-worthy events.

QVC Italy turned in impressive results in its first full year of operations. Its customer metrics, such as repeat purchase rate and customer satisfaction are extremely encouraging and QVC Italy boasts the lowest return rate of any of our markets. We continue to anticipate that this market will become profitable in its third full year of operations.

QVC recently announced its anticipated entrance into the Chinese market. It plans to partner with one of the leading multimedia retailers in China. We anticipate government approval of this joint venture in the second quarter. QVC also continues to explore additional international markets, and current countries at the top of the list include France, Brazil, Spain and Canada.

eCommerce Companies

Under the leadership of our strong group of founders and operating teams, the Liberty eCommerce companies continued to outpace the eCommerce industry posting 20% revenue growth. As a group, they generated $1.3 billion in revenue. Combined with the eCommerce revenue generated by QVC, we again ranked as a top ten e-retailer in the US. Additionally, adjusted OIBDA margins were over 9%, which is impressive compared to other pure play eCommerce companies. We continued with our strategy of creating strong organic growth and of acquiring eCommerce companies that can be folded into existing operations. Backcountry.com acquired Competitive Cyclist, the leader in high-end cycling bikes and gear. The integration was seamless and Competitive Cyclist has done well as part of the Backcountry.com family. Provide Commerce continues to exploit the strengths of its Personal Creations business through product offerings at Red Envelope and ProFlowers that are very popular with their customers. At Celebrate Interactive, Evite.com has launched postmark, its premium paid invitation service. We expect this offering to be well-received given the strength and pervasiveness of the Evite brand and product.

Paying It Forward

We wanted to inform you of an initiative at Liberty Interactive that we have undertaken in an effort to give back to the community and fulfill our role as responsible corporate citizens. In September of 2011, we launched and sponsored the Women's eCommerce Network. The mission of this network is to unite female leaders in eCommerce and provide an opportunity for promising female entrepreneurs to enhance and improve their businesses. We aim to achieve this mission by assembling a Council of ten women who have tremendous experience and success in the eCommerce space in order to mentor a Class of five early stage eCommerce companies founded by women. Over a six-month period the Council provides mentorship and input on a project defined by the Class members. We just concluded our first mentorship period and the feedback from all participants was overwhelmingly positive. We were honored that the Council members gave their time and that the Class members let us learn more about their businesses.

Annual Investor Meeting

We look forward to seeing you at this year's annual investor meeting, which will take place on October 10th in New York City. This year we will be at a new location, in the TimesCenter at 242 West 41st Street. For those of you that have been regular attendees we wanted to make sure you knew about the new location as we have held this event at the old location for over a decade. This new location will allow for a larger Liberty experience, so get ready to shop.

Looking Ahead

2011 was a transformational year for Liberty Interactive, which will continue with the creation of the new Liberty Ventures tracking stock later this year. At our digital commerce companies (QVC and eCommerce companies) we will continue to focus on operations – driving revenue growth, running efficient and profitable operations, and seeking expansion both organically and through acquisition. For Liberty Ventures we will seek investment opportunities with attractive return potentials. Both of these tracking stocks will be well-capitalized with access to additional capital. We continue to believe that using cash for stock repurchases is an efficient way to return capital to our stockholders, and we will be opportunistic in making those repurchases. We are excited for the multitude of opportunities at Liberty Interactive. We appreciate your ongoing support.

Very truly yours,

Gregory B. Maffei
President and Chief Executive Officer

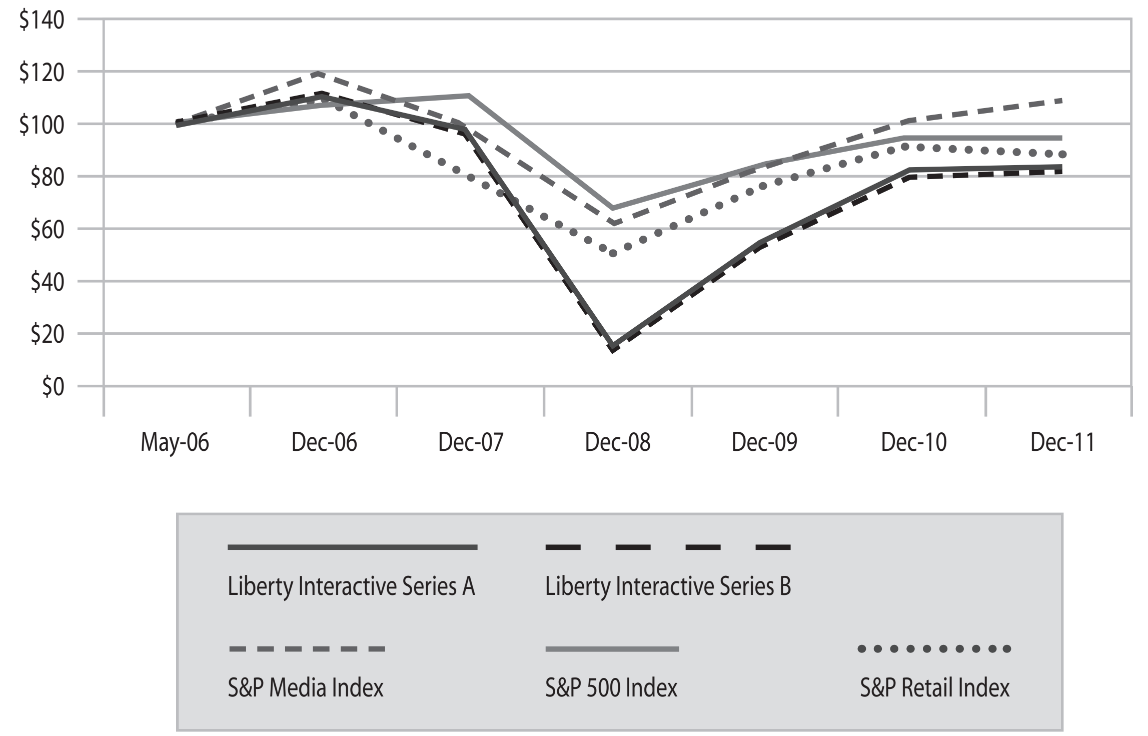
John C. Malone
Chairman of the Board

STOCK PERFORMANCE

The following graph compares the percentage change in the cumulative total stockholder return on the Series A and Series B Liberty Interactive common stock from May 10, 2006 through December 31, 2011, in comparison to the S&P Media Index, the S&P 500 Index, and the S&P Retail Index.

Liberty Interactive Common Stock vs. S&P Media, 500 and Retail Indices

5/10/06 to 12/31/11



	5/10/06	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Liberty Interactive Series A	$100.00	$110.90	$98.10	$16.04	$55.73	$81.08	$83.37
Liberty Interactive Series B	$100.00	$111.76	$97.34	$15.29	$54.94	$79.54	$83.12
S&P Media Index	$100.00	$119.43	$99.49	$61.82	$83.61	$101.34	$108.55
S&P 500 Index	$100.00	$107.22	$111.00	$68.28	$84.30	$95.07	$95.07
S&P Retail Index	$100.00	$110.34	$81.15	$50.41	$75.82	$91.78	$88.40

Liberty Interactive owns interests in a broad range of digital commerce businesses including QVC, Provide Commerce, Backcountry.com, Celebrate Interactive, Bodybuilding.com, Evite, TripAdvisor and Expedia.

The following table sets forth some of Liberty Interactive'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 Interactive and, to the extent known by Liberty Interactive, other holders. In some cases, Liberty Interactive's interest may be subject to buy/sell procedures, repurchase rights or dilution.

ENTITY	DESCRIPTION OF OPERATING BUSINESS	OWNERSHIP
AOL Inc. (NYSE: AOL)	Global Web services company with a suite of brands and offerings. The company's business spans online content, products and services that it offers to consumers, publishers and advertisers.	2%
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.	87%
Bodybuilding.com, LLC	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%
Celebrate Interactive	Leading catalog and online retailer of party supplies and costumes.	100%
CommerceHub	Industry's leading provider of integration and fulfillment solutions for multi-channel eCommerce merchants.	99%
Evite, Inc.	The leading online invitation and social event planning service on the web.	100%

ENTITY	DESCRIPTION OF OPERATING BUSINESS	OWNERSHIP
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.com and Classic Vacations. Expedia's companies operate internationally in Canada, the UK, Germany, France, Italy, the Netherlands and China.	26%
Gifts.com	The #1 gift recommendation site, offering consumers great gift ideas and interactive, personalized shopping services that enable them to become better, more organized gift-givers.	100%
HSN, Inc. (NASDAQ: HSNI)	A retailer and interactive lifestyle network offering an assortment of products through television home shopping programming on HSN television network and HSN.com.	34%
Interval Leisure Group, Inc. (NASDAQ: IILG)	Provider of membership services to the vacation ownership industry.	30%
Liberty Advertising	An online advertising sales organization.	100%
LOCKERZ	Aims to be the destination for generation Z where commerce, content, and community converge.	38%
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 Cherry Moon Farms, ProFlowers, Red Envelope, and Shari's Berries.	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 television networks and via the Internet through its domestic and international websites.	100%

ENTITY	DESCRIPTION OF OPERATING BUSINESS	OWNERSHIP
Right Start	eCommerce and traditional retailer of premium baby gear and products that offers parents a carefully selected assortment of the best products for their babies including travel gear, feeding products, décor and toys.	100%
Time Warner Cable Inc. (NYSE: TWC)	Among the largest cable operators in the U.S. who 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.	2%
Tree.com, Inc. (Lending Tree) (NASDAQ: TREE)	An online lending and real estate business which matches consumers with lenders and loan brokers.	25%
TripAdvisor, Inc. (NASDAQ: TRIP)	The world's largest travel site, enabling travelers to plan and have the perfect trip.	26%

1 Liberty Interactive owns approximately 26% of Expedia common stock representing an approximate 60% voting interest; however, the Chairman and CEO of Expedia currently has the authority to vote these shares.

2 Liberty Interactive owns approximately 26% of TripAdvisor common stock representing an approximate 60% voting interest; however, the Chairman and CEO of TripAdvisor 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

Our Series A and Series B Liberty Interactive common stock (LINTA and LINTB) have been outstanding since May 2006. On September 23, 2011 we completed the LMC Split-Off, which was effected by means of a redemption of all of our Liberty Capital tracking stock and Liberty Starz tracking stock for the common stock of Liberty Media. Our Series A and Series B Liberty Capital tracking stock (LCAPA and LCAPB) and our Series A and Series B Liberty Starz tracking stock (formerly Liberty Entertainment tracking stock) (LSTZA and LSTZB, formerly LMDIA and LMDIB) were outstanding between September 23, 2011 and 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. On November 19, 2009, we completed the split off (the "LEI Split-Off") of our subsidiary Liberty Entertainment, Inc. ("LEI"). The LEI Split-Off was accomplished by a redemption of 90% of the outstanding shares of Liberty Entertainment common stock in exchange for all of the outstanding shares of common stock of LEI. LEI had been attributed to the Entertainment Group. Subsequent to the LEI Split-Off, the Entertainment Group was renamed the Starz Group. 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, 2011 and 2010.

	Liberty Interactive			
	Series A (LINTA)		Series B (LINTB)	
	High	Low	High	Low
2010				
First quarter	$15.41	10.20	15.25	10.29
Second quarter	$16.65	10.50	16.65	10.79
Third quarter	$14.00	10.08	13.76	10.35
Fourth quarter	$16.22	13.63	16.10	13.51
2011				
First quarter	$17.49	14.77	17.41	14.91
Second quarter	$18.65	15.19	18.37	15.30
Third quarter	$17.91	12.44	17.14	12.44
Fourth quarter	$16.50	13.38	16.35	13.72

	Liberty Capital			
	Series A (LCAPA)		Series B (LCAPB)	
	High	Low	High	Low
2010				
First quarter	$37.16	23.62	37.00	23.50
Second quarter	$46.05	36.48	45.94	37.50
Third quarter	$53.25	40.42	52.74	41.42
Fourth quarter	$63.67	52.01	63.28	51.62
2011				
First quarter	$75.68	61.98	75.21	62.61
Second quarter	$92.55	72.72	91.36	74.66
Third quarter (through September 23, 2011)	$87.99	62.29	85.94	63.27

	Liberty Starz			
	Series A (LSTZA)		Series B (LSTZB)	
	High	Low	High	Low
2010				
First quarter	$54.73	46.04	53.67	46.64
Second quarter	$57.12	48.17	57.04	48.90
Third quarter	$65.56	49.89	67.00	51.50
Fourth quarter	$69.15	60.12	69.15	61.84
2011				
First quarter	$80.21	64.20	78.00	66.33
Second quarter	$81.36	68.78	79.99	72.62
Third quarter (through September 23, 2011)	$78.91	63.00	78.08	64.16

Holders

As of January 31, 2012, there were approximately 2,000 and 100 record holders of our Series A and Series B Liberty Interactive common stock, respectively. The foregoing numbers of record holders do not include the number of stockholders whose shares are held nominally 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 2012 Annual Meeting of stockholders.

Purchases of Equity Securities by the Issuer

Share Repurchase Programs

On several occasions our board of directors has authorized a share repurchase program for our Series A and Series B Liberty Interactive common stock. On each of May 5, 2006, November 3, 2006 and October 30, 2007 our board authorized the repurchase of $1 billion of Liberty Interactive Series A and Series B common stock for a total of $3 billion. These previous authorizations have remained effective, notwithstanding the fact that our stock is no longer a tracking stock, following the Split-Off.

A summary of the repurchase activity for the three months ended December 31, 2011 is as follows:

	Series A Liberty Interactive 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, 2011	5,801,858	$14.95	5,801,858	$566 million
November 1 - 30, 2011	4,579,134	$15.64	4,579,134	$494 million
December 1 - 31, 2011	7,605,378	$15.86	7,605,378	$373 million
Total	17,986,370		17,986,370	

In addition to the shares listed in the table above 18,553 shares of Series A Liberty Interactive common stock were surrendered by certain of our officers and employees to pay withholding taxes and other deductions 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,				
	2011	2010	2009	2008	2007
	amounts in millions				
Summary Balance Sheet Data:					
Cash	$ 847	1,353	1,955	1,903	2,008
Investments in available-for-sale securities and other cost investments	$ 1,168	1,110	1,641	1,469	3,703
Investment in affiliates	$ 1,135	949	831	794	864
Assets of discontinued operations	$ —	8,933	9,374	22,644	23,575
Total assets	$17,339	26,600	28,631	41,903	45,649
Long-term debt	$ 4,850	5,970	7,343	8,509	10,853
Deferred income tax liabilities, noncurrent	2,046	2,709	2,946	3,305	3,985
Liabilities of discontinued operations	—	3,854	5,002	8,217	8,462
Equity	$ 6,627	11,442	10,238	19,757	20,452

	Years ended December 31,				
	2011	2010	2009	2008	2007
	amounts in millions, except per share amounts				
Summary Statement of Operations Data:					
Revenue	$9,616	8,932	8,305	8,079	7,802
Operating income (loss)	$1,133	1,108	1,041	906	1,113
Interest expense	$ (427)	(626)	(594)	(607)	(587)
Share of earnings (losses) of affiliates	$ 140	112	24	(953)	77
Realized and unrealized gains (losses) on financial instruments, net	$ 84	62	(589)	493	502
Gains on dispositions, net	$ —	355	42	2	12
Other than temporary declines in fair value of investments	$ —	—	—	(440)	—
Earnings (loss) from continuing operations(1):					
Liberty Capital common stock	$ 10	28	(356)	374	—
Liberty Starz common stock	$ —	—	—	—	—
Liberty Interactive common stock	$ 577	808	319	(597)	470
Old Liberty Capital common stock	$ —	—	—	—	233
	$ 587	836	(37)	(223)	703
Basic earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share(2):					
Series A and Series B Liberty Capital common stock	$ 0.12	0.31	(3.71)	3.31	—
Series A and Series B Liberty Interactive common stock	$ 0.88	1.28	0.47	(1.07)	0.70
Old Series A and Series B Liberty Capital common stock	$ —	—	—	—	1.77
Diluted earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share(2):					
Series A and Series B Liberty Capital common stock	$ 0.12	0.30	(3.71)	3.31	—
Series A and Series B Liberty Interactive common stock	$ 0.87	1.26	0.47	(1.07)	0.69
Old Series A and Series B Liberty Capital common stock	$ —	—	—	—	1.75

(1) Includes earnings from continuing operations attributable to the noncontrolling interests of $53 million, $45 million, $39 million, $44 million and $35 million for the years ended December 31, 2011, 2010, 2009, 2008 and 2007, respectively.

(2) Basic and diluted earnings per share have been calculated for Liberty Capital and Liberty Starz common stock for the period subsequent to March 3, 2008 through September 23, 2011. 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.

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 companies. Our largest business, which is also our principal reportable segment, is QVC, Inc. QVC markets and sells a wide variety of consumer products in the United States and several foreign countries, primarily by means of its televised shopping programs and via the Internet through its domestic and international websites. Additionally, we own entire or majority interests in consolidated subsidiaries which operate on-line commerce businesses in a broad range of retail categories. The more significant of these include Backcountry.com, Inc., Bodybuilding.com, LLC, Celebrate Interactive Holdings, Inc. and Provide Commerce, Inc. Backcountry operates websites offering sports gear and clothing for outdoor and active individuals in a variety of categories. Bodybuilding manages websites related to sports nutrition, bodybuilding and fitness. Celebrate operates websites that offer costumes, invitations, accessories, décor, gifts and party supplies. Provide operates an e-commerce marketplace of websites for perishable goods, including flowers, fruits and desserts, as well as upscale personalized gifts.

Our "Corporate and Other" category includes our corporate ownership interests in other unconsolidated businesses and corporate expenses. We hold ownership interests in Expedia, Inc., HSN, Inc., Interval Leisure Group, Inc., Tree.com, Inc. and TripAdvisor, 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 Inc., Time Warner Cable Inc. and AOL, Inc., which are accounted for at their respective fair market values and are included in "Corporate and Other."

Discontinued Operations

Prior to the LMC Split-Off (as defined below), Liberty's equity was structured into three separate tracking stocks. 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. Liberty had three tracking stocks, Liberty Interactive common stock, Liberty Starz common stock and Liberty Capital common stock, which were intended to track and reflect the economic performance of the separate businesses, assets and liabilities attributed to each group. These attributed businesses, assets and liabilities were not separate legal entities and therefore could not own assets, issue securities or enter into legally binding agreements. Holders of the tracking stocks did not have direct claim to the group's stock or assets and were not represented by separate boards of directors.

On September 23, 2011, Liberty completed the split-off of a wholly owned subsidiary, Liberty Media Corporation ("LMC") (formerly known as Liberty CapStarz, Inc. and prior thereto Liberty Splitco, Inc.) (the "LMC Split-Off"). At the time of the LMC Split-Off, LMC owned all the assets, businesses and liabilities previously attributed to the Capital and Starz tracking stock groups. The LMC Split-Off was effected by means of a redemption of all of the Liberty Capital common stock and Liberty Starz common stock of Liberty for all of the common stock of LMC. This transaction has been accounted for at historical cost due to the pro rata nature of the distribution.

Following the LMC Split-Off, Liberty and LMC operate as separate, publicly traded companies and neither has any stock ownership, beneficial or otherwise, in the other. In connection with the LMC Split-Off, Liberty and LMC entered into certain agreements in order to govern certain of the ongoing relationships between the two companies after the LMC Split-Off and to provide for an orderly transition.

On November 19, 2009, Liberty completed the split-off (the "LEI Split-Off") of its wholly owned subsidiary, Liberty Entertainment, Inc. ("LEI"), and the business combination transaction among Liberty, LEI and the DIRECTV Group, Inc. ("DIRECTV") (the "DTV Business Combination"). LEI held Liberty's 57% interest in DIRECTV (which had a carrying value of $13,475 million at the time of the LEI Split-Off), a 100% interest in Liberty Sports Holdings, LLC, a 65% interest in Game Show Network, LLC and approximately $120 million in cash and cash equivalents, and approximately $2 billion of indebtedness. All of the businesses, assets and liabilities that were attributed to the Entertainment Group and were not held by LEI remained with Liberty and were attributed to the Entertainment Group, which Liberty redesignated as the Starz Group.

Immediately following the LEI Split-Off, Liberty, LEI and DIRECTV completed the DTV Business Combination, and each of LEI and DIRECTV became wholly owned subsidiaries of a new public holding company ("Holdings"), and LEI repaid loans to Liberty in the amount of $226 million. Pursuant to the DTV Business Combination, (i) John C. Malone, Chairman of the boards of Liberty, LEI and DIRECTV, and certain related persons (collectively, "the Malones") contributed each of their shares of LEI Series B common stock to Holdings for 1.1113 shares of Holdings Class B common stock (with payment of cash in lieu of any fractional shares), (ii) LEI merged with a wholly-owned subsidiary of Holdings, and each share of LEI common stock (other than shares of LEI Series B common stock held by the Malones) was exchanged for 1.1113 shares of Holdings Class A common stock (with payment of cash in lieu of any fractional shares), and (iii) DIRECTV merged with a wholly-owned subsidiary of Holdings, and each share of DIRECTV common stock was exchanged for one share of Holdings Class A common stock.

The consolidated financial statements of Liberty have been prepared to reflect LMC and LEI as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of LMC and LEI, for periods prior to the respective split-offs, have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operations, comprehensive earnings and cash flows in such consolidated financial statements.

Strategies and Challenges of Business Units

QVC. During 2011, QVC continued to see improved economic conditions and operating results. Domestically, in 2011, QVC continued to adjust its product mix, improve its programming, enhance and optimize its website and invest in multi-media opportunities.

In 2011, each of QVC's international businesses showed improved operating results in local currency and U.S dollars. QVC-UK, QVC-Germany, QVC-Italy and QVC-Japan were all helped by a weaker U.S. dollar against the UK pound sterling, the euro and the Japanese yen, respectively. Efforts by QVC-Germany to diversify its programming and product mix and increase its focus on underperforming product categories by reducing airtime allocations helped to increase the business's performance in 2011. In 2011, QVC-UK improved the sales mix, selling times and frequency of the more successful product lines, which led to increased revenue and higher product margins. Further, both QVC-Germany and QVC-UK expanded their TV platforms with the launch of second channels as well as an interactive TV platform in Germany. QVC-Japan successfully navigated through a difficult natural disaster early in the year and grew its business year-over-year. QVC-Japan continued to adjust its product lines, value perception and category mix to improve performance. In October 2010, QVC commenced operations in Italy, which is still in the start-up phase, and has seen steady improvement in revenue growth, but continues to sustain operating losses.

QVC's goal is to become the preeminent global multimedia shopping community for people who love to shop, and to offer a shopping experience that is as much about entertainment and enrichment as it is about buying. QVC's objective is to provide an integrated shopping experience that utilizes all forms of media including television, the Internet and mobile devices. In 2012, QVC intends to employ several strategies to achieve these goals and objectives. Among these strategies are to (1) extend the breadth, relevance and exposure of the QVC brand, (2) source products that represent unique quality and value, (3) create engaging presentation content both in televised programming and online, (4) leverage customer loyalty and continue multi-platform expansion and (5) create a compelling and differentiated customer experience. In addition, QVC expects to leverage its existing systems, infrastructure and skills.

QVC-US has identified certain product growth opportunities and will continue to pursue compelling brands, unique items and dynamic and relevant personalities to fuel a constant flow of fresh concepts and large scale programming events. The upcoming enhanced website will provide improved product search and guided navigation, a second live counter programming show on-line and the ability to create micro-sites.

QVC's programming service is already received by substantially all of the multichannel television households in the US, UK, Germany and Japan. QVC's future net revenue growth will primarily depend on international expansion, additions of new customers from households already receiving our television programming and growth in sales to existing customers. QVC's future net revenue may also be affected by (1) the willingness of multichannel television distributors to continue carrying QVC's programming service, (2) the ability to maintain favorable channel positioning, which may become more difficult as distributors convert analog customers to digital, (3) changes in television viewing habits because of the proliferation of personal video recorders, video-on-demand and Internet video services and (4) general economic conditions.

Results of Operations—Consolidated

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 principal reportable segment and our E-commerce businesses. The "corporate and other" category consists of those assets or businesses which we do not disclose separately. For a more detailed discussion and analysis of the financial results of the principal reporting segment, see "Results of Operations—Businesses" below.

Operating Results

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
Revenue			
QVC	$8,268	7,807	7,352
E-commerce	1,348	1,125	953
Corporate and other	—	—	—
	$9,616	8,932	8,305
Adjusted OIBDA			
QVC	$1,733	1,671	1,556
E-commerce	123	103	112
Corporate and other	(33)	(28)	(14)
	$1,823	1,746	1,654
Operating Income (Loss)			
QVC	$1,137	1,130	1,014
E-commerce	55	40	54
Corporate and other	(59)	(62)	(27)
	$1,133	1,108	1,041

Revenue. Our consolidated revenue increased 7.7% and 7.5% for the years ended December 31, 2011 and 2010, respectively, as compared to the corresponding prior year periods. The current year and prior year increases were the result of increased revenue at QVC ($461 million and $455 million, respectively) and the E-commerce companies ($223 million and $172 million, respectively). See "Results of Operations—Businesses" below for a more complete discussion of the results of operations of certain of our subsidiaries.

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-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. See note 18 to the accompanying consolidated financial statements for a reconciliation of Adjusted OIBDA to Earnings (loss) from continuing operations before income taxes.

Consolidated Adjusted OIBDA increased $77 million and $92 million for the years ended December 31, 2011 and 2010, respectively, as compared to the corresponding prior year periods. See "Results of Operations—Businesses" below for a more complete discussion of the results of operations of certain of our subsidiaries.

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.

We recorded $49 million, $67 million and $47 million of stock compensation expense for the years ended December 31, 2011, 2010 and 2009, respectively. The decrease in stock compensation expense in 2011 relates primarily to our liability classified awards due to a less significant increase in our stock prices in the current period as compared to the prior period offset slightly by additional grants in the current year which increased amortization of stock compensation. The increase in stock compensation in 2010 was primarily due to the significant increase in our stock prices over that time period and a larger number of stock option grants. As of December 31, 2011, the total unrecognized compensation cost related to unvested Liberty equity awards was approximately $109 million. Such amount will be recognized in our consolidated statements of operations over a weighted average period of approximately 2.1 years.

Operating income. Our consolidated operating income increased $25 million and $67 million for the years ended December 31, 2011 and 2010, respectively, as compared to the corresponding prior year periods. See "Results of Operations—Businesses" below for a more complete discussion of the results of operations of certain of our subsidiaries.

Other Income and Expense

Components of Other Income (Expense) are presented in the table below.

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
Other income (expense):			
Interest expense	$(427)	(626)	(594)
Share of earnings (losses) of affiliates	140	112	24
Realized and unrealized gains (losses) on financial instruments, net	84	62	(589)
Gains (losses) on dispositions, net	—	355	42
Other, net	9	(47)	(6)
	$(194)	(144)	(1,123)

Interest expense. Interest expense decreased $199 million and increased $32 million for the years ended December 31, 2011 and 2010, respectively, as compared to the corresponding prior year periods. The overall decrease in interest expense for the current year related to a lower average debt balance throughout the year, as compared to the corresponding prior year period. The 2010 increase was primarily due to a shift from shorter term debt with lower interest rates to longer term debt which has slightly higher rates.

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

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
Expedia, Inc.	$119	103	72
TripAdvisor, Inc.	—	—	—
HSN, Inc.	38	31	(37)
Other	(17)	(22)	(11)
	$140	112	24

During the fourth quarter of 2011 Expedia, Inc. completed the pro-rata split-off of TripAdvisor, Inc., a wholly owned subsidiary. Therefore, we have a 26% ownership interest in each of Expedia, Inc. and TripAdvisor, Inc. as of December 31, 2011.

The change of earnings (losses) of affiliates for the year ended December 31, 2010 as compared to the same period for 2009 was due to our accounting for certain equity method affiliates on a lag. These equity method affiliates took impairment charges as of December 31, 2008 and we recorded our incremental share of those losses in the first quarter of 2009. As of December 31, 2008 we had recorded other than temporary impairments of those equity method affiliates in our share of earnings (losses) as of that date. The share of losses in the first quarter of 2009 relates to the incremental portion between our other than temporary impairments and our share of losses for those equity method affiliates.

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,		
	2011	2010	2009
	amounts in millions		
Non-strategic Securities	$ 55	202	238
Exchangeable senior debentures	(46)	(257)	(856)
Other derivatives	75	117	29
	$ 84	62	(589)

The changes in these accounts are due entirely to market factors and changes in the fair value of the underlying stocks or financial instruments to which these relate.

Gains (losses) on dispositions. Gains on dispositions in 2010 include a gain related to the sale of our GSI Commerce, Inc. shares of $105 million and a gain of $218 million related to the disposition of all of our IAC/InteractiveCorp shares throughout the year ended December 31, 2010.

Income taxes. Our effective tax rate for the years ended December, 2011 and 2010 was 37% and 13%, respectively. The 2011 effective tax rate is greater than the U.S. federal income tax rate of 35% primarily due to the impact of state taxes. The 2010 effective tax rate was less than the U.S. federal income tax rate of 35% due to a nontaxable exchange of investments for a subsidiary that resulted in a deferred tax benefit of $112 million. For the year ended December 31, 2009 we recognized an income tax benefit of $45 million which was greater than the U.S federal income tax rate of 35% of our net losses due primarily to the recognition of nontaxable gains related to certain financial instruments on our own common stock.

Net earnings. We had net earnings of $965 million, $1,937 million and $6,501 million for the years ended December 31, 2011, 2010 and 2009, respectively. The change in net earnings was the result of the above-described fluctuations in our revenue, expenses and other gains and losses. The December 31, 2009 net earnings includes the discontinued operations which included a significant gain related to the LEI Split-Off.

Liquidity and Capital Resources

As of December 31, 2011 substantially all of our cash and cash equivalents are invested in U.S. Treasury securities, other government securities or government guaranteed funds, AAA rated money market funds and other highly rated financial and corporate debt instruments.

The following are potential sources of liquidity: 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, debt and equity issuances, and dividend and interest receipts.

As a result of the LMC Split-Off, S&P announced upgrades for both the QVC and the Liberty Interactive LLC (fka Liberty Media LLC) ratings, while Moody's affirmed the Liberty Interactive corporate rating and affirmed the QVC senior bond rating of Ba2.

As of December 31, 2011 Liberty had a cash balance of $847 million with approximately $320 million held by foreign subsidiaries. Cash in foreign subsidiaries is generally accessible but certain tax consequences may reduce the net amount of cash we are able to utilize for domestic purposes. We note that QVC-Japan's cash, which is approximately half of the foreign cash balance, is further encumbered by a minority interest agreement. We believe that we currently have appropriate legal structures in place to repatriate foreign cash as tax efficiently as possible and meet the business needs of the company. Another significant source of liquidity is our borrowing capacity under the QVC Bank Credit Facilities under which we have $1,566 million of available credit at December 31, 2011. Additionally, our operating businesses have provided, on average, approximately $1 billion in annual operating cash flow over the prior three years. Although prior year operating cash flow was enhanced by a one time working capital change at QVC related to the amended GE Capital Retail Bank agreement, we do not anticipate any significant reductions in the $1 billion of average annual operating cash flows in future periods.

During the year ended December 31, 2011, Liberty's primary uses of cash were $899 million of debt repayments, $366 million of share repurchases and $312 million of capital expenditures. These uses of cash were funded primarily with $914 million of cash provided by operating activities, $383 million in borrowings and cash on hand.

The projected uses of Liberty cash are the costs to service outstanding debt, approximately $400 million for interest payments on QVC and parent debt, forecasted capital improvement spending of approximately $400 million, a portion of which relates to the construction of the new QVC-Japan headquarters, for 2012, the continued buyback of common stock under the approved share buyback program (subsequent to year end we made additional repurchases of approximately 3.9 million shares for $68 million through January 31, 2012) and additional investments in existing or new businesses.

QVC was in compliance with its debt covenants as of December 31, 2011.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

In connection with agreements for the sale of assets by our company, we may 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 obligations may extend for a number of years. We are unable to estimate the maximum potential liability for these types of indemnification obligations as the sale agreements may 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 obligations.

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 is summarized below.

	Payments due by period				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
	amounts in millions				
Consolidated contractual obligations					
Long-term debt(1)	$ 6,583	27	334	457	5,765
Interest payments(2)	4,054	393	677	644	2,340
Long-term financial instruments	59	—	59	—	—
Operating lease obligations	255	40	60	42	113
Purchase orders and other obligations	1,392	1,363	25	4	—
Total	$12,343	1,823	1,155	1,147	8,218

(1) Amounts are stated at the face amount at maturity of our debt instruments 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, 2011, (ii) assume the interest rates on our variable rate debt remain constant at the December 31, 2011 rates and (iii) assume that our existing debt is repaid at maturity.

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Boards amended the Accounting Standards Codification ("ASC") as summarized in Accounting Standards Update ("ASU") 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* As summarized in ASU 2011-08, ASC Topic 350 has been amended to simplify how entities test goodwill for impairment by permitting entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. Previously, under ASC Topic 350 an entity would be required to test goodwill, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, then, if the carrying amount was greater than the fair value of the reporting unit, step two of the test would be required to determine whether an impairment was necessary. In evaluating goodwill on a qualitative basis we reviewed the business performance of each reporting unit and evaluated other relevant factors as identified in ASU 2011-08 to determine that it was more likely than not that there were no indicated impairments for any of our reporting units. We do not believe the outcome of performing a qualitative analysis versus immediately performing a step one test had any financial statement impact.

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

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 ("AFS") securities, financial instruments and our exchangeable senior debentures. GAAP 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 all our non-strategic AFS securities. As of December 31, 2011 and 2010, the carrying value of our non-strategic AFS securities was $1,165 million and $1,109 million, respectively.

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 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 GAAP, so these liabilities fall in Level 2. As of December 31, 2011, the principal amount and carrying value of our exchangeable debentures were $2,967 million and $2,443 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. If the carrying value of our long-lived assets exceeds their undiscounted cash flows, 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. 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.

As of December 31, 2011, the intangible assets not subject to amortization for each of our significant reporting units was as follows:

	Goodwill	Trademarks	Total
	amounts in millions		
QVC	$5,354	2,428	7,782
E-commerce	624	90	714
	$5,978	2,518	8,496

We perform our annual assessment of the recoverability of our goodwill and other nonamortizable intangible assets as of December 31. As discussed above, in Recent Accounting Pronouncements, we adopted the recent accounting guidance relating to annual assessments of recoverability of goodwill and we utilized a qualitative assessment for determining whether step one of the goodwill impairment analysis was necessary.

Carrying Value of Investments. We 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 and equity 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.

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, 2011, 2010 and 2009, sales returns represented 19.4%, 18.9% and 18.7% 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, 2011, QVC's inventory is $906 million, which is net of the obsolescence adjustment of $90 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, 2011, QVC's trade accounts receivable are $1,020 million, net of the allowance for doubtful accounts of $79 million. Each of these estimates 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.

Results of Operations—Businesses

Operating Results by Business

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 distributed via its nationally televised shopping program 24 hours a day, 364 days a year ("QVC-US"). Internationally, QVC's program services are based in the United Kingdom ("QVC-UK"), Germany ("QVC-Germany"), Japan ("QVC-Japan") and Italy ("QVC-Italy"). QVC-UK distributes its program 24 hours a day with 17 hours of live programming and QVC-Germany and QVC-Japan each distribute live programming 24 hours a day. QVC- Italy launched on October 1, 2010 and is distributing programming live for 17 hours a day on satellite and public television and an additional seven hours a day of recorded programming on satellite television.

QVC's operating results were as follows:

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
Net revenue	$ 8,268	7,807	7,352
Cost of sales	(5,278)	(5,006)	(4,748)
Gross profit	2,990	2,801	2,604
Operating expenses	(758)	(715)	(684)
SG&A expenses (excluding stock-based compensation)	(499)	(415)	(364)
Adjusted OIBDA	1,733	1,671	1,556
Stock-based compensation—SG&A	(22)	(18)	(16)
Depreciation and amortization	(574)	(523)	(526)
Operating income	$ 1,137	1,130	1,014

Net revenue was generated in the following geographical areas:

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
QVC-US	$5,412	5,235	4,965
QVC-Japan	1,127	1,015	867
QVC-Germany	1,068	956	942
QVC-UK	626	599	578
QVC-Italy	35	2	—
	$8,268	7,807	7,352

QVC's consolidated net revenue increased 5.9% and 6.2% for the years ended December 31, 2011 and 2010, respectively, as compared to the corresponding prior year. The 2011 increase in net revenue was comprised of $478 million due to a 5.6% increase in average selling price per unit ("ASP") and a $167 million increase due to net favorable foreign currency rates in all markets. These increases were partially offset by a $123 million decrease due to an increase in estimated product returns, a $56 million decrease due to a 1% decline in units sold and a $5 million decrease due to a decline in shipping and handling revenue. Returns as a percent of gross product revenue increased to 19.4% from 18.9% primarily from an increase in apparel and accessories as a percentage of the total mix of products sold.

The 2010 increase in net revenue was comprised of $358 million due to a 4.4% increase in units shipped from 157.8 million to 164.8 million, $193 million increase due to an increase of 2.3% in ASP, $34 million increase due to an increase in shipping and handling revenue and a $4 million increase due to net favorable foreign currency rates. These increases were partially offset by $134 million increase in estimated product returns. Returns as a percent of gross product revenue increased slightly to 18.9% from 18.7% due primarily to higher return rates experienced in the accessories, jewelry and electronics product categories.

During the years ended December 31, 2011 and 2010, 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 in revenue for each of QVC's geographic areas in U.S. dollars and in local currency was as follows:

	Percentage increase (decrease) in net revenue			
	Year ended December 31, 2011		Year ended December 31, 2010	
	U.S. dollars	Local currency	U.S. dollars	Local currency
QVC-US	3.4%	3.4%	5.4%	5.4%
QVC-Japan	11.0%	1.0%	17.1%	9.7%
QVC-Germany	11.7%	7.1%	1.5%	6.7%
QVC-UK	4.5%	1.0%	3.6%	5.3%

Our net revenue increased in U.S. dollars and local currency in each geographical area as compared to the prior year. QVC-US net revenue growth of 3.4% was primarily due to an 8.9% increase in ASP offset by a 4.2% decrease in units sold. QVC-US shipped sales increased mainly due to growth in sales of electronics, home and accessories product categories, which were offset by a decline in jewelry sales. QVC-UK's growth was the result of increased sales in home and apparel that was offset by softness in sales in the jewelry category. The increase in net revenue in QVC-Germany compared to prior year was mainly due to growth in home, jewelry and apparel. QVC-Japan experienced growth in apparel, but was negatively impacted by decreases in net revenue related to beauty and jewelry products. QVC-Italy sales consisted primarily of home, beauty, jewelry and apparel products. QVC-Italy was positively impacted by a 2.9% decline in returns.

On March 11, 2011, there was a significant earthquake in Japan. As a result, QVC-Japan was off-air for 12 days and experienced an interruption of its business. The facilities suffered moderate damage. QVC-Japan returned on-air and resumed operations on March 23, 2011. The earthquake and related events have impacted the year-to-date December 31, 2011 results; however, QVC-Japan has experienced a steady increase in year-to-date sales results as compared to the period year.

The QVC service is already received by substantially all of the cable television and direct broadcast satellite homes in the U.S., the UK, Germany and Japan. QVC's future sales growth will primarily depend on expansions into new countries, sales growth from our e-commerce and mobile platforms, 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 36.2%, 35.9% and 35.4% for the three years ended December 31, 2011, 2010 and 2009, respectively. The increase in gross profit percentage in 2011 was primarily due to warehouse and freight efficiencies as a result of fewer packages shipped. The increase in the gross profit percentage in 2010 was due primarily to lower obsolescence expense as QVC continued to maintain tight inventory control.

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 $43 million or 6.0% and $31 million or 4.5% for the years ended December 31, 2011 and 2010, respectively. Included in these increases was growth of $9 million and $11 million for the years ended December 31, 2011 and 2010, respectively, related to QVC-Italy operations, which launched in October 2010. The remaining increase in 2011 was primarily due to an increase in commissions expense due to sales growth, an increase in programming expense as well as increased fixed fee payments in the UK and Japan. Operating expenses as a percent of net revenue remained consistent at 9.2% for the years ended December 31, 2011 and 2010.

Aside from Italy, the other increases in 2010 included an increase in commissions expense due to sales growth, an increase in production personnel expenses and an increase in credit card fees due to sales growth as well as an increase in rates. Despite the Italy expense, as a percent of net revenue, operating expenses declined from 9.3% to 9.2% for the year ended December 31, 2010 compared to the prior year. The 2010 decrease in operating expenses as a percent of net revenue was due primarily to lower customer service expenses due to an improvement in staff efficiencies as well as an increase in online ordering. In addition, telecommunications expense decreased due to more favorable contract rates.

QVC's SG&A expenses include personnel, information technology, provision for doubtful accounts, credit card income and marketing and advertising expenses. Such expenses increased $84 million and as a percent of net revenue from 5.3% to 6.0% for the year ended December 31, 2011 as a result of a variety of factors. Italy's SG&A expenses increased $13 million and net credit card operations income decreased $13 million for the year ended December 31, 2011 (see note below). In addition, foreign exchange rates and a weakening dollar contributed $12 million of an increase in SG&A expense period over period. The remainder of QVC's SG&A expense increased $46 million or 9.8% primarily as the result of increased online marketing expense of $17 million, increased bad debt expense of $11 million, increased outside services of $7 million, increased personnel expense of $5 million, increased software expense of $3 million and increased charitable contributions of $2 million related to Japan relief efforts. The increase in bad debt compared to the prior year was due to increased penetration of product offerings on our Easy Pay installment program as a percent of overall sales as well as an increase in our overall experience rate of bad debt. The increase in outside services for the year ended December 31, 2011 was due primarily to legal services related to (i) the defense of alleged infringement matters and (ii) the prosecution and defense of certain other intellectual property claims.

QVC's SG&A expenses increased $51 million and as a percent of net revenue grew from 5.0% to 5.3% for the year ended December 31, 2010. Italy's SG&A expenses increased $16 million period over period. Net credit card operations income increased $18 million for the year ended December 31, 2010 (see note below). Excluding the impact of Italy and net credit card operations, QVC's SG&A expense increased $53 million or 12.8% for the year ended December 31, 2010. The increase was due primarily to a $16 million increase in bad debt expense, an $8 million increase in online marketing and public relations events, an $8 million increase in personnel expenses primarily related to increased management bonus compensation, $7 million increase in software expense, $6 million increase in outside services and a $4 million increase in franchise and sales tax due primarily to favorable audit settlements recorded in the prior year.

Effective August 2, 2010, upon the expiration of the existing contract, QVC entered into an amended agreement with GE Capital Retail Bank (formerly GE Money Bank), who provides revolving credit directly to QVC customers solely for the purchase of merchandise from QVC. Under the amended agreement, QVC receives a portion of the economics from the credit card program according to percentages that vary with the performance of the portfolio. The amended agreement, which will expire in August 2015, is substantially different than the expired agreement between the parties. QVC's operating income (and adjusted OIBDA) have been negatively impacted due to the terms of the amended agreement. However, QVC used the $501 million payment from GE Capital Retail Bank in connection with the prior arrangement to retire a portion of its outstanding bank facility in 2010. QVC's net credit card income would have been approximately $22 million and $14 million more favorable in 2011 and 2010, compared to the respective prior years, based on the terms of the expired contract compared to the amended contract.

Depreciation and amortization consist of the following:

	Years ended December 31,		
	2011	2010	2009
Affiliate agreements	152	152	152
Customer relationships	173	173	180
Purchase accounting related amortization	325	325	332
Property, plant and equipment	135	128	123
Software amortization	95	51	49
Channel placement amortization	19	19	22
Total depreciation and amortization	574	523	526

In regards to software amortization, during the fourth quarter of 2011, it was determined that certain internally-developed and capitalized customer relationship management ("CRM") software would not be able to meet our service-level expectations and desired functionality. As a result, QVC recorded an impairment of certain CRM assets in the amount of $47 million.

E-commerce businesses. Our e-commerce businesses are comprised primarily of Provide, Backcountry, Bodybuilding and Celebrate. Revenue for the e-commerce businesses is seasonal due to certain holidays, which drive a significant portion of the e-commerce businesses' revenue. The third quarter is generally lower, as compared to the other three quarters, due to fewer holidays. Revenue increased $223 million and $172 million for the years ended December 31, 2011 and 2010, respectively, as compared to the corresponding prior year periods. Each of our respective e-commerce businesses reported an increase in revenue for the years ended December 31, 2011 and 2010, as compared to the corresponding prior year periods. Such increases are the result of acquisitions, increased marketing efforts driving additional traffic and greater conversion due to site optimization and broader inventory offerings. Adjusted OIBDA for the e-commerce businesses increased $20 million for the year ended December 31, 2011 and decreased $9 million for the year ended December 31, 2010. Adjusted OIBDA as a percentage of revenue was 9.1% and 9.2% and 11.8% for the years ended December 31, 2011, 2010 and 2009 respectively. The decrease in Adjusted OIBDA conversion was primarily the result of further investment in marketing, personnel and technology to sustain continued growth for each of the consolidated businesses. The significant decrease from December 31, 2009 was primarily driven by the decision made in 2010 to change the offering of third party discount services that resulted in significantly lower commission revenue.

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, 2011, 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			
QVC	$434	1.7%	$2,070	7.3%
Corporate and other	$ 12	3.1%	$4,067	4.6%

In addition, QVC has entered into seven forward interest rate swap arrangements with an aggregate notional amount of $1,750 million and seven forward interest rate swap arrangements with an aggregate notional amount of $1,350 million. Such arrangements provided for payments that began in March 2011 and will extend to March 2013. On the notional amount of $1,750 million, QVC makes fixed payments at rates ranging from 2.98% to 3.67% and receive variable payments at 3 month LIBOR (0.55% at December 31, 2011). On the notional amounts of $1,350 million, QVC will make variable payments at 3 month LIBOR (0.55% at December 31, 2011) and receive fixed payments at rates ranging from 0.57% to 0.95%.

We are 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 periodically use equity collars and other financial instruments to manage market risk associated with certain investment positions. These instruments, when utilized, are recorded at fair value based on option pricing models.

At December 31, 2011, the fair value of our non-strategic AFS equity securities was $1,165 million. Had the market price of such securities been 10% lower at December 31, 2011, the aggregate value of such securities would have been $117 million lower. Our stock in Expedia and other equity method affiliates which are publicly traded securities are not reflected at fair value in our balance sheet. These securities are also subject to market risk that is not directly reflected in our statement of operations. Additionally, our exchangeable senior debentures are also subject to market risk. Because we mark these instruments to fair value each reporting date, increases in the price of the respective underlying security generally result in higher liabilities and unrealized losses in our statement of operations.

Liberty 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 accumulated 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, Liberty 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 largely offset by the effects of interest rate movements on the underlying debt facilities. 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.

Financial Statements and Supplementary Data.

The consolidated financial statements of Liberty Interactive Corporation are filed under this Item, beginning on Page F-21. The financial statement schedules required by Regulation S-X are filed under Item 15 of the 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 and its principal accounting and 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, 2011 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-19 for *Management's Report on Internal Control Over Financial Reporting.*

See page F-20 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, 2011 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 Interactive 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, 2011. 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, 2011, Liberty Interactive Corporation's internal control over financial reporting is effectively designed and operating effectively.

Liberty Interactive Corporation's independent registered public accounting firm 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-20 of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Interactive Corporation:

We have audited Liberty Interactive Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Liberty Interactive 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 Interactive Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Liberty Interactive Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive earnings (loss), cash flows, and equity for each of the years in the three-year period ended December 31, 2011, and our report dated February 23, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Denver, Colorado
February 23, 2012

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Interactive Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Interactive Corporation and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive earnings (loss), cash flows, and equity for each of the years in the three-year period ended December 31, 2011. 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 Interactive Corporation and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Liberty Interactive Corporation and subsidiaries' internal control over financial reporting as of December 31, 2011, 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 23, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Denver, Colorado
February 23, 2012

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2011 and 2010

	2011	2010
	amounts in millions	
Assets		
Current assets:		
Cash and cash equivalents	$ 847	1,353
Trade and other receivables, net	1,054	885
Inventory, net	1,071	1,069
Other current assets	148	85
Assets of discontinued operations—current (note 4)	—	3,163
Total current assets	3,120	6,555
Investments in available-for-sale securities and other cost investments (note 6)	1,168	1,110
Investments in affiliates, accounted for using the equity method (note 7)	1,135	949
Property and equipment, at cost	2,002	1,777
Accumulated depreciation	(869)	(739)
	1,133	1,038
Intangible assets not subject to amortization (note 8):		
Goodwill	5,978	5,983
Trademarks	2,518	2,513
	8,496	8,496
Intangible assets subject to amortization, net (note 8)	2,209	2,595
Other assets, at cost, net of accumulated amortization	78	87
Assets of discontinued operations (note 4)	—	5,770
Total assets	$17,339	26,600

(continued)

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets (Continued)

December 31, 2011 and 2010

	2011	2010
	amounts in millions	
Liabilities and Equity		
Current liabilities:		
Accounts payable	599	630
Accrued liabilities	801	768
Payable to Liberty Media	—	85
Current portion of debt (note 9)	1,189	493
Deferred income tax liabilities (note 10)	851	152
Other current liabilities	128	231
Liabilities of discontinued operations—current (note 4)	—	2,380
Total current liabilities	3,568	4,739
Long-term debt, including $2,443 million and $2,506 million measured at fair value (note 9)	4,850	5,970
Long-term financial instruments	59	86
Deferred income tax liabilities (note 10)	2,046	2,709
Other liabilities	189	180
Liabilities of discontinued operations (note 4)	—	1,474
Total liabilities	10,712	15,158
Equity		
Stockholders' equity (note 11):		
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 at December 31, 2010; issued and outstanding zero shares at December 31, 2011 and 75,139,893 shares at December 31, 2010	—	1
Series B Liberty Capital common stock, $.01 par value. Authorized 75,000,000 shares at December 31, 2010; issued and outstanding zero shares at December 31, 2011 and 7,363,948 shares at December 31, 2010	—	—
Series A Liberty Starz common stock, $.01 par value. Authorized 4,000,000,000 shares at December 31, 2010; issued and outstanding zero shares at December 31, 2011 and 49,130,652 shares at December 31, 2010	—	—
Series B Liberty Starz common stock, $.01 par value. Authorized 150,000,000 shares at December 31, 2010; issued and outstanding zero shares at December 31, 2011 and 2,917,815 shares at December 31, 2010	—	—
Series A Liberty Interactive common stock, $.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 549,361,673 shares at December 31, 2011 and 570,731,067 shares at December 31, 2010	6	6
Series B Liberty Interactive common stock, $.01 par value. Authorized 150,000,000 shares; issued and outstanding 28,989,160 shares at December 31, 2011 and 29,059,016 shares at December 31, 2010	—	—
Additional paid-in capital	2,681	8,338
Accumulated other comprehensive earnings, net of taxes	152	226
Retained earnings	3,654	2,742
Total stockholders' equity	6,493	11,313
Noncontrolling interests in equity of subsidiaries	134	129
Total equity	6,627	11,442
Commitments and contingencies (note 17)		
Total liabilities and equity	17,339	26,600

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statements Of Operations

December 31, 2011 and 2010

	2011	2010	2009
	amounts in millions, except per share amounts		
Net retail sales	$9,616	8,932	8,305
Cost of sales (exclusive of depreciation shown separately below)	6,114	5,705	5,332
Gross Profit	3,502	3,227	2,973
Operating costs and expenses:			
Operating	866	799	752
Selling, general and administrative, including stock-based compensation (note 3)	862	749	614
Depreciation and amortization	641	571	566
	2,369	2,119	1,932
Operating income	1,133	1,108	1,041
Other income (expense):			
Interest expense	(427)	(626)	(594)
Share of earnings (losses) of affiliates, net (note 7)	140	112	24
Realized and unrealized gains (losses) on financial instruments, net (note 5)	84	62	(589)
Gains (losses) on dispositions, net	—	355	42
Other, net	9	(47)	(6)
	(194)	(144)	(1,123)
Earnings (loss) from continuing operations before income taxes	939	964	(82)
Income tax (expense) benefit	(352)	(128)	45
Earnings (loss) from continuing operations	587	836	(37)
Earnings (loss) from discontinued operations, net of taxes (note 4)	378	1,101	6,538
Net earnings (loss)	965	1,937	6,501
Less net earnings (loss) attributable to the noncontrolling interests	53	45	39
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders	$ 912	1,892	6,462
Net earnings (loss) attributable to Liberty Interactive Corporation shareholders:			
Liberty Capital common stock	$ 211	815	127
Liberty Starz common stock	177	206	6,077
Liberty Interactive common stock	524	871	258
	$ 912	1,892	6,462

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statements Of Operations (Continued)

December 31, 2011 and 2010

	2011	2010	2009
	amounts in millions, except per share amounts		
Basic net earnings (losses) from continuing operations attributable to Liberty Interactive Corporation shareholders per common share (note 2):			
Series A and Series B Liberty Capital common stock	$0.12	0.31	(3.71)
Series A and Series B Liberty Starz common stock	$ —	—	—
Series A and Series B Liberty Interactive common stock	$0.88	1.28	0.47
Diluted net earnings (losses) from continuing operations attributable to Liberty Interactive Corporation shareholders per common share (note 2):			
Series A and Series B Liberty Capital common stock	$0.12	0.30	(3.71)
Series A and Series B Liberty Starz common stock	$ —	—	—
Series A and Series B Liberty Interactive common stock	$0.87	1.26	0.47
Basic net earnings (losses) attributable to Liberty Interactive Corporation shareholders per common share (note 2):			
Series A and Series B Liberty Capital common stock	$2.60	9.06	1.32
Series A and Series B Liberty Starz common stock	$3.47	4.12	13.13
Series A and Series B Liberty Interactive common stock	$0.88	1.46	0.43
Diluted net earnings (losses) attributable to Liberty Interactive Corporation shareholders per common share (note 2):			
Series A and Series B Liberty Capital common stock	$2.54	8.76	1.31
Series A and Series B Liberty Starz common stock	$3.34	3.96	13.04
Series A and Series B Liberty Interactive common stock	$0.87	1.44	0.43

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statements Of Comprehensive Earnings (Loss)

Years ended December 31, 2011, 2010 and 2009

	2011	2010	2009
	amounts in millions		
Net earnings (loss)	$965	1,937	6,501
Other comprehensive earnings (loss), net of taxes:			
Foreign currency translation adjustments	(11)	(37)	1
Unrealized holding gains (losses) arising during the period	—	41	187
Recognition of previously unrealized (gains) losses on available-for-sale securities, net	—	(198)	(27)
Share of other comprehensive earnings (losses) of equity affiliates	(2)	7	(5)
Other	—	56	47
Other comprehensive earnings (loss) from discontinued operations	(26)	20	72
Other comprehensive earnings (loss)	(39)	(111)	275
Comprehensive earnings (loss)	926	1,826	6,776
Less comprehensive earnings (loss) attributable to the noncontrolling interests	57	60	32
Comprehensive earnings (loss) attributable to Liberty Interactive Corporation shareholders	$869	1,766	6,744
Comprehensive earnings (loss) attributable to Liberty Interactive Corporation shareholders:			
Liberty Capital common stock	$189	834	167
Liberty Starz common stock	173	206	6,108
Liberty Interactive common stock	507	726	469
	$869	1,766	6,744

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statements Of Cash Flows

Years ended December 31, 2011, 2010 and 2009

	2011	2010	2009
	amounts in millions (See note 3)		
Cash flows from operating activities:			
Net earnings (loss)	$ 965	1,937	6,501
Adjustments to reconcile net earnings to net cash provided by operating activities:			
(Earnings) loss from discontinued operations	(378)	(1,101)	(6,538)
Depreciation and amortization	641	571	566
Stock-based compensation	49	67	47
Cash payments for stock-based compensation	(3)	(20)	(9)
Noncash interest expense	9	90	97
Share of (earnings) losses of affiliates, net	(140)	(112)	(24)
Cash receipts from returns on equity investments	22	21	—
Realized and unrealized (gains) losses on financial instruments, net	(84)	(62)	589
(Gains) losses on disposition of assets, net	—	(355)	(42)
Deferred income tax expense (benefit)	44	(62)	(298)
Other noncash charges (credits), net	(5)	22	(6)
Changes in operating assets and liabilities			
Current and other assets	(174)	247	5
Payables and other liabilities	(32)	46	142
Net cash provided (used) by operating activities	914	1,289	1,030
Cash flows from investing activities:			
Cash proceeds from dispositions	—	459	306
Proceeds (payments) from settlement of financial instruments, net	—	(28)	7
Investment in and loans to cost and equity investees	(65)	—	(24)
Cash received in exchange transaction	—	218	—
Capital expended for property and equipment	(312)	(258)	(208)
Net sales (purchases) of short term investments	(46)	—	—
Other investing activities, net	(14)	(47)	(33)
Net cash provided (used) by investing activities	(437)	344	48
Cash flows from financing activities:			
Borrowings of debt	383	2,974	1,277
Repayments of debt	(899)	(4,791)	(2,538)
Repurchases of Liberty Interactive common stock	(366)	—	—
Other financing activities, net	(48)	(83)	(121)
Net cash provided (used) by financing activities	(930)	(1,900)	(1,382)
Effect of foreign currency exchange rates on cash	(4)	14	(17)
Net cash provided (used) by discontinued operations:			
Cash provided (used) by operating activities	304	88	412
Cash provided (used) by investing activities	(104)	7	1,591
Cash provided (used) by financing activities	(264)	(1,498)	202
Change in available cash held by discontinued operations	15	1,054	(1,832)
Net cash provided (used) by discontinued operations	(49)	(349)	373
Net increase (decrease) in cash and cash equivalents	(506)	(602)	52
Cash and cash equivalents at beginning of period	1,353	1,955	1,903
Cash and cash equivalents at end of period	$ 847	1,353	1,955

See accompanying notes to consolidated financial statements.

LIBERTY INTERACTIVE CORPORATION AND SUBSIDIARIES

Consolidated Statement Of Equity

Years ended December 31, 2011, 2010 and 2009

	Stockholders' Equity												
		Common stock										
	Preferred Stock	Liberty Capital		Liberty Starz		Liberty Interactive		Additional paid-in capital	Accumulated other comprehensive earnings	Retained Earnings	Noncontrolling interest in equity of subsidiaries	Total equity
		Series A	Series B	Series A	Series B	Series A	Series B					
	amounts in millions											
Balance at January 1, 2009	$—	1	—	5	—	6	—	25,132	70	(5,612)	155	19,757
Net earnings	—	—	—	—	—	—	—	—	—	6,462	39	6,501
Other comprehensive earnings (loss)	—	—	—	—	—	—	—	—	282	—	(7)	275
Split Off of Liberty Entertainment, Inc. (note 4)	—	—	—	(5)	—	—	—	(16,481)	—	—	—	(16,486)
Stock compensation	—	—	—	—	—	—	—	158	—	—	—	158
Stock issued upon exercise of stock options	—	—	—	—	—	—	—	117	—	—	—	117
Series A Liberty Starz stock repurchases	—	—	—	—	—	—	—	(13)	—	—	—	(13)
Series A Liberty Capital stock repurchases	—	—	—	—	—	—	—	(5)	—	—	—	(5)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	(59)	(59)
Other	—	—	—	—	—	—	—	(8)	—	—	1	(7)
Balance at December 31, 2009	—	1	—	—	—	6	—	8,900	352	850	129	10,238
Net earnings	—	—	—	—	—	—	—	—	—	1,892	45	1,937
Other comprehensive earnings (loss)	—	—	—	—	—	—	—	—	(126)	—	15	(111)
Stock compensation	—	—	—	—	—	—	—	148	—	—	—	148
Stock issued upon exercise of stock options	—	—	—	—	—	—	—	34	—	—	—	34
Series A Liberty Starz stock repurchases	—	—	—	—	—	—	—	(40)	—	—	—	(40)
Series A Liberty Capital stock repurchases	—	—	—	—	—	—	—	(714)	—	—	—	(714)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	(64)	(64)
Other	—	—	—	—	—	—	—	10	—	—	4	14
Balance at December 31, 2010	$—	1	—	—	—	6	—	8,338	226	2,742	129	11,442
Net earnings	—	—	—	—	—	—	—	—	—	912	53	965
Other comprehensive earnings (loss)	—	—	—	—	—	—	—	—	(43)	—	4	(39)
Stock compensation	—	—	—	—	—	—	—	72	—	—	—	72
Stock issued upon exercise of stock options	—	—	—	—	—	—	—	17	—	—	—	17
Series A Liberty Interactive stock repurchases	—	—	—	—	—	—	—	(366)	—	—	—	(366)
Series A Liberty Capital stock repurchases	—	—	—	—	—	—	—	(213)	—	—	—	(213)
Distribution to noncontrolling interest	—	—	—	—	—	—	—	(16)	—	—	(51)	(67)
Sale of noncontrolling interest, net of tax impacts	—	—	—	—	—	—	—	(100)	—	—	(6)	(106)
Distribution to stockholders for split-off of Liberty Media Corporation (note 4)	—	(1)	—	—	—	—	—	(5,110)	(31)	—	5	(5,137)
Transfer of tax attributes from Liberty Media	—	—	—	—	—	—	—	59	—	—	—	59
Balance at December 31, 2011	$—	—	—	—	—	6	—	2,681	152	3,654	134	6,627

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Interactive Corporation (formerly known as 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 industries in North America, Europe and Asia.

(2) 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 and sales returns. Such allowance aggregated $80 million and $67 million at December 31, 2011 and 2010, respectively. A summary of activity in the allowance for doubtful accounts is as follows:

	Balance beginning of year	Additions Charged to expense	Deductions-write-offs	Balance end of year
		amounts in millions		
2011	$67	68	(55)	80
2010	$81	79	(93)	67
2009	$74	74	(67)	81

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.

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. U.S. generally accepted accounting principles ("GAAP") permit 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 (the "fair value option"). Liberty has entered into economic hedges for certain 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 the fair value option for those of its AFS securities which it considers to be non-strategic ("Non-strategic Securities"). Accordingly, changes in the fair value of Non-strategic Securities, as determined by quoted market prices, are reported in realized and unrealized gain (losses) on financial instruments in the accompanying consolidated statement of operations. The total value of AFS securities for which the Company has elected the fair value option aggregated $1,165 million and $1,109 million as of December 31, 2011 and 2010, respectively.

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 an equity method investee, which result from the issuance of additional equity securities by such equity investee ("SAB 51 Gain"), are recognized in equity.

The Company continually reviews its equity investments and its AFS securities which are not Non-strategic Securities 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 AFS securities which are not Non-strategic Securities 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

All of the Company's 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. None of the Company's derivatives are currently designated as hedges.

In prior years the fair value of the Company's equity collars and other similar derivative instruments were 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 obtained 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 was obtained at the inception of the derivative instrument and updated each reporting period in which equity collars were outstanding, based on the Company's estimate of the discount rate at which it could currently settle the derivative instrument. The Company considered its own credit risk as well as the credit risk of its counterparties in estimating the discount rate. Considerable management judgment was required in estimating the Black-Scholes variables.

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

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment upon certain triggering events. Goodwill and other intangible assets with indefinite useful lives (collectively, "indefinite lived intangible assets") are not amortized, but instead are tested for impairment at least annually.

Equity method goodwill is also not amortized, but is evaluated for impairment upon certain triggering events.

The Company performs at least annually an impairment analysis and as discussed below, in the Recent Accounting Pronouncements, the Company adopted the recent accounting guidance relating to annual assessments of recoverability of goodwill and utilized a qualitative assessment for determining whether step one of the goodwill impairment analysis was necessary. In evaluating goodwill on a qualitative basis the Company reviewed the business performance of each reporting unit and evaluated other relevant factors as identified in ASU 2011-08 to determine whether it was more likely than not that an indicated impairment existed for any of our reporting units. The Company considered whether there was any negative macroeconomic conditions, industry specific conditions, market changes, increased competition, increased costs in doing business, management challenges, the legal environments and how these factors might impact company specific performance in future periods. As part of the analysis the Company also considered fair value determinations for certain reporting units that had been made at various points throughout the current year and prior year for other purposes.

If a step one test would have been necessary based on the qualitative factors the Company would compare the estimated fair value of a reporting unit to its carrying value. 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.

Impairment of Long-lived Assets

The Company periodically reviews 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, including its ultimate disposition, 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.

Noncontrolling Interests

The Company reports noncontrolling interests of subsidiaries within equity in the balance sheet and the amount of consolidated net income attributable to the parent and to the noncontrolling interest is presented in the statement of income. Also, changes in ownership interests in subsidiaries in which the Company maintains a controlling interest are recorded in 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 at the time of delivery 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, 2011, 2010 and 2009 aggregated $1,759 million, $1,792 million and $1,656 million, respectively. Sales tax collected from customers on retail sales is recorded on a net basis and is not included in revenue.

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 $242 million, $197 million and $151 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Stock-Based Compensation

As more fully described in note 13, 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"). The Company measures 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 recognizes that cost over the period during which the employee is required to provide service (usually the vesting period of the Award). The Company measures 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 remeasures the fair value of the Award at each reporting date.

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, 2011	$49
December 31, 2010	$67
December 31, 2009	$47

Included in earnings from discontinued operations for the year ended December 31, 2009 is $55 million of stock-based compensation related to stock options and restricted stock, the vesting of which was accelerated in connection with the closing of the DTV Business Combination.

As of December 31, 2011, the total unrecognized compensation cost related to unvested Liberty equity Awards was approximately $109 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.

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) Attributable to Liberty Interactive Corporation Stockholders and Earnings (Loss) Per Common Share

Net earnings attributable to Liberty Interactive Corporation stockholders are comprised of the following:

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
Earnings (loss) from continuing operations	534	788	(76)
Earnings (loss) from discontinued operations	378	1,104	6,538
	912	1,892	6,462

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.

Series A and Series B Liberty Capital Common Stock

The basic and diluted EPS calculation is based on the following weighted average shares outstanding ("WASO"). As discussed in more detail in note 4, Liberty Capital common stock was redeemed for shares in a subsidiary in the third quarter. Therefore, the amounts presented below are through the LMC Split-Off date.

	Period ended September 23, 2011	Year ended December 31, 2010	Year ended December 31, 2009
	numbers of shares in millions		
Basic WASO	81	90	96
Stock options	2	3	1
Diluted WASO	83	93	97

Series A and Series B Liberty Starz Common Stock

The basic and diluted EPS calculation is based on the following weighted average shares outstanding. As discussed in more detail in note 4, Liberty Starz common stock was redeemed for shares in a subsidiary in the third quarter. Therefore, the amounts presented below for December 31, 2011 are through the LMC Split-Off date.

	Period ended September 23, 2011	Year ended December 31, 2010	Year ended December 31, 2009
	number of shares in millions		
Basic WASO	51	50	463
Stock options	2	2	3
Diluted WASO	53	52	466

Series A and Series B Liberty Interactive Common Stock

The basic and diluted EPS calculation is based on the following weighted average shares outstanding. Excluded from diluted EPS for the year ended December 31, 2011 are 13 million potential common shares because their inclusion would be antidilutive.

	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
	number of shares in millions		
Basic WASO	595	596	594
Stock options	7	9	—
Diluted WASO	602	605	594

Estimates

The preparation of financial statements in conformity with 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) accounting for income taxes, (iii) assessments of other-than-temporary declines in fair value of its investments and (iv) 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 September 2011, the Financial Accounting Standards Boards amended the Accounting Standards Codification ("ASC") as summarized in Accounting Standards Update ("ASU") 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* As summarized in ASU 2011-08, ASC Topic 350 has been amended to simplify how entities test goodwill for impairment by permitting entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. Previously, under ASC Topic 350 an entity would be required to test goodwill, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, then, if the carrying amount was greater than the fair value of the reporting unit, the step two of the test would be required to determine whether an impairment was necessary. In evaluating goodwill on a qualitative basis we reviewed the business performance of each reporting unit and evaluated other relevant factors as identified in ASU 2011-08 to determine whether it was more likely than not that an indicated impairment existed for any of our reporting units. As part of the analysis we also considered fair value determinations for certain reporting units that had been made at various points throughout the year for other purposes. We do not believe the outcome of performing a qualitative analysis versus immediately performing a step one test had any financial statement impact.

(3) Supplemental Disclosures to Consolidated Statements of Cash Flows

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
Cash paid for acquisitions:			
Fair value of assets acquired	$ 16	39	3
Net liabilities assumed	(3)	(1)	—
Deferred tax liabilities	1	(5)	—
Noncontrolling interest	—	—	1
Cash paid for acquisitions, net of cash acquired	$ 14	33	4
Available-for-sale securities exchanged for consolidated subsidiaries	$ —	368	—
Cash paid for interest	$426	529	474
Cash paid for income taxes	$370	301	248

(4) Discontinued Operations

Split-Off of Liberty Media Corporation

Prior to the LMC Split-Off (as defined below), Liberty's equity was structured into three separate tracking stocks. A 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. Liberty had three tracking stocks, Liberty Interactive common stock, Liberty Starz common stock and Liberty Capital common stock, which were intended to track and reflect the economic performance of the separate businesses, assets and liabilities attributed to each group. These attributed businesses, assets and liabilities were not separate legal entities and therefore could not own assets, issue securities or enter into legally binding agreements. Holders of the tracking stocks did not have direct claim to the group's stock or assets and were not represented by separate boards of directors.

On September 23, 2011, Liberty completed the split-off of a wholly owned subsidiary, Liberty Media Corporation ("LMC") (formerly known as Liberty CapStarz, Inc. and prior thereto known as Liberty Splitco, Inc.) (the "LMC Split-Off"). At the time of the LMC Split-Off, LMC owned all the assets, businesses and liabilities previously attributed to the Capital and Starz tracking stock groups. The LMC Split-Off was effected by means of a redemption of all of the Liberty Capital common stock and Liberty Starz common stock of Liberty in exchange for the common stock of LMC. This transaction has been accounted for at historical cost due to the pro rata nature of the distribution.

Following the LMC Split-Off, Liberty and LMC operate as separate, publicly traded companies, and neither has any stock ownership, beneficial or otherwise, in the other. In connection with the LMC Split-Off, Liberty and LMC entered into certain agreements in order to govern certain of the ongoing relationships between the two companies after the LMC Split-Off and to provide for an orderly transition. These agreements include a Reorganization Agreement, a Services Agreement, a Facilities Sharing Agreement and a Tax Sharing Agreement.

The Tax Sharing Agreement provides for the allocation and indemnification of tax liabilities and benefits between Liberty and LMC and other agreements related to tax matters. Liberty is party to on-going discussions with the IRS under the Compliance Assurance Process audit program. The IRS may propose adjustments that relate to tax attributes allocated to and income allocable to LMC in the LMC Split-Off. Any potential outcome associated with any proposed adjustments would be covered by the Tax Sharing Agreement and are not expected to have any impact on Liberty's financial position. Pursuant to the Services Agreement, LMC will provide Liberty with general and administrative services including legal, tax, accounting, treasury and investor relations support. Liberty will reimburse LMC for direct, out-of-pocket expenses incurred by LMC in providing these services and for Liberty's allocable portion of costs associated with any shared services or personnel based on an estimated percentage of time spent providing services to Liberty. Under the Facilities Sharing Agreement, Liberty will share office space with LMC and related amenities at LMC's corporate headquarters. Under theses various agreements approximately $2 million of these allocated expenses were reimbursable from Liberty to LMC since the LMC Split-Off date.

The consolidated financial statements and accompanying notes of Liberty have been prepared to reflect LMC as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of the businesses, assets and liabilities owned by LMC at the time of LMC Split-Off (for periods prior to the LMC Split-Off) have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operations, comprehensive earnings and cash flows in such consolidated financial statements.

Certain combined financial information for LMC, which is included in earnings (loss) from discontinued operations, is as follows:

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
Revenue	$2,008	2,050	1,853
Earnings (loss) before income taxes	$ 628	594	703

A summary of certain asset and liability amounts for LMC as of the respective dates are as follows:

	September 23, 2011	December 31, 2010
	amounts in millions	
Assets		
Cash and cash equivalents	$2,075	1,826
Investments in available-for-sale securities and other cost investments	$2,847	3,441
Liabilities		
Financial instruments	$1,125	1,230
Deferred income tax liabilities	$ 428	214
Debt	$ 791	855

Split-Off of LEI

On November 19, 2009, Liberty completed its split-off (the "LEI Split-Off") of its wholly owned subsidiary, Liberty Entertainment, Inc. ("LEI"), and the business combination transaction among Liberty, LEI and the DIRECTV Group, Inc. ("DIRECTV") (the "DTV Business Combination"). LEI held Liberty's 57% interest in DIRECTV (which had a carrying value of $13,475 million million at the time of the LEI Split-Off), a wholly owned subsidiary Liberty Sports Holdings, LLC, 65% interest in Game Show Network, LLC and approximately $120 million in cash and cash equivalents, and approximately $2 billion of indebtedness. All of the businesses, assets and liabilities that were attributed to the Entertainment Group and were not held by LEI have remained with Liberty and continue to be attributed to the Entertainment Group, which Liberty redesignated as the Starz Group.

Immediately following the LEI Split-Off, Liberty, LEI and DIRECTV completed the DTV Business Combination, and each of LEI and DIRECTV became wholly owned subsidiaries of a new public holding company ("Holdings"), and LEI repaid loans to Liberty in the amount of $226 million. Pursuant to the DTV Business Combination, (i) John C. Malone, Chairman of the boards of Liberty Media, LEI and DIRECTV, and certain related persons (collectively, "the Malones") contributed each of their shares of LEI Series B common stock to Holdings for 1.1113 shares of Holdings Class B common stock (with payment of cash in lieu of any fractional shares), (ii) LEI merged with a wholly-owned subsidiary of Holdings, and each share of LEI common stock (other than shares of LEI Series B common stock held by the Malones) was exchanged for 1.1113 shares of Holdings Class A common stock (with payment of cash in lieu of any fractional shares), and (iii) DIRECTV merged with a wholly-owned subsidiary of Holdings, and each share of DIRECTV common stock was exchanged for one share of Holdings Class A common stock.

Because the LEI Split-Off was conditioned on, among other matters, satisfaction and waiver of all conditions to the DTV Business Combination, the LEI Split-Off and the DTV Business Combination have been recorded at fair value, and Liberty recognized an approximate $5.9 billion gain on the transaction. Such gain is included in earnings from discontinued operations in the accompanying consolidated statement of operations. Due to the tax-free nature of the LEI Split-Off and the DTV Business Combination, no taxes were recorded on the gain for financial statement purposes.

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

	Year ended December 31, 2009
	amounts in millions
Revenue	$ 240
Earnings before income taxes(1)	$5,770

(1) Includes the gain from the LEI Split-Off/DTV Business Combination in 2009.

Earnings per share impact of discontinued operations

The combined impact from discontinued operations, discussed above, is as follows:

	Years ended December 31,		
	2011	2010	2009
Basic earnings (losses) from discontinued operations attributable to Liberty shareholders per common share (note 2):			
Series A and Series B Liberty Capital common stock	$2.48	8.74	5.03
Series A and Series B Liberty Starz common stock	$3.47	4.12	13.13
Series A and Series B Liberty Interactive common stock	$ —	0.19	(0.04)
Diluted earnings (losses) from discontinued operations attributable to Liberty shareholders per common share (note 2):			
Series A and Series B Liberty Capital common stock	$2.42	8.46	4.98
Series A and Series B Liberty Starz common stock	$3.34	3.96	13.04
Series A and Series B Liberty Interactive common stock	$ —	0.18	(0.04)

Certain assets and liabilities not owned by Liberty Interactive at the time of LMC Split-Off were attributed to the Liberty Interactive tracking stock in prior periods and certain assets and liabilities not owned by LMC at the time of the LMC Split-Off were attributed to the Liberty Capital tracking stock in prior periods. These assets and liabilities, and their resulting impacts on the attributed statement of operations, were either included or excluded from discontinued operations based on which entity owned the assets at time of split-off. This results in Liberty Interactive common stock participating in the discontinued operations for the amount attributable to Liberty Interactive common stock for those assets and liabilities it did not own at the time of the LMC Split-Off, in periods prior to the LMC Split-Off. Additionally, certain prior period EPS calculations for Liberty Capital common stock include continuing operations due to the attribution of certain debt and equity instruments in those periods to the Liberty Capital group that remained with Liberty after the LMC Split-Off as a result of the change in attribution of those assets and liabilities prior to the LMC Split-Off.

(5) Assets and Liabilities Measured at Fair Value

For assets and liabilities required to be reported at fair value, GAAP 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:

	December 31, 2011				December 31, 2010			
Description	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	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							
Short term marketable securities	$ 46	—	46	—	—	—	—	—
Available-for-sale securities	$1,165	1,165	—	—	1,109	1,109	—	—
Financial instruments	$ 61	—	61	—	128	—	128	—
Debt	$2,443	—	2,443	—	2,506	—	2,506	—

The majority of the Company's Level 2 financial assets and liabilities are debt instruments with quoted market prices that are not considered to be traded on "active markets," as defined in GAAP. Accordingly, the financial instruments are reported in the foregoing table as Level 2 fair value.

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,		
	2011	2010	2009
	amounts in millions		
Non-strategic Securities	$ 55	202	238
Exchangeable senior debentures	(46)	(257)	(856)
Other	75	117	29
	$ 84	62	(589)

(6) Investments in Available-for-Sale Securities and Other Cost 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. GAAP 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 (the "fair value option"). In prior years, Liberty entered into economic hedges for certain of its non-strategic

AFS securities (although such instruments were not accounted for as fair value hedges by the Company). Changes in the fair value of these economic hedges were 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 elected the fair value option for those of its AFS securities which it considers to be non-strategic ("Non-strategic Securities"). Accordingly, changes in the fair value of Non-strategic Securities, as determined by quoted market prices, are reported in realized and unrealized gains (losses) on financial instruments in the accompanying condensed consolidated statements of operations.

Investments in AFS securities, the entirety of which are considered Non-strategic Securities, and other cost investments are summarized as follows:

	December 31, 2011	December 31, 2010
	amounts in millions	
Time Warner Inc.	$ 787	701
Time Warner Cable Inc.	348	361
Other	33	48
	$1,168	1,110

(7) 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, 2011 and the carrying amount at December 31, 2010:

	December 31, 2011			December 31, 2010
	Percentage ownership	Market value	Carrying amount	Carrying amount
			dollars in millions	
Expedia, Inc.(1)(2)	26%	$1,004	$ 621	710
TripAdvisor, Inc.(1)	26%	$ 873	184	—
HSN,Inc.	34%	$ 726	217	133
Other	various	N/A	113	106
			$1,135	949

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

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
Expedia, Inc.(1)	$119	103	72
TripAdvisor, Inc.(1)	—	—	—
HSN,Inc.	38	31	(37)
Other	(17)	(22)	(11)
	$140	112	24

(1) During the fourth quarter of 2011 Expedia, Inc. completed the pro-rata split-off of TripAdvisor, Inc., a wholly owned subsidiary. Therefore, the Company has a 26% ownership interest in each of Expedia, Inc. and TripAdvisor, Inc. as of December 31, 2011.

(2) During the years ended December 31, 2011 and 2010, Expedia, Inc. paid dividends aggregating $19 million and $19 million, respectively.

Expedia

Summarized unaudited financial information for Expedia is as follows:

Expedia Consolidated Balance Sheets

	December 31, 2011	December 31, 2010
	amounts in millions	
Current assets	$2,275	1,708
Property and equipment, net	320	246
Goodwill	2,877	2,865
Intangible assets	744	747
Assets of discontinued operations, noncurrent	—	865
Other assets	289	226
Total assets	$6,505	6,657
Current liabilities	$2,553	1,896
Deferred income taxes	280	264
Long-term debt	1,249	1,249
Liabilities of discontinued operations, noncurrent	—	396
Other liabilities	118	115
Noncontrolling interest	105	64
Equity	2,200	2,673
Total liabilities and equity	$6,505	6,657

Expedia Consolidated Statements of Operations

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
Revenue	$ 3,449	3,034	2,743
Cost of revenue	(761)	(685)	(603)
Gross profit	2,688	2,349	2,140
Selling, general and administrative expenses	(2,186)	(1,825)	(1,684)
Amortization	(22)	(23)	(24)
Restructuring charges and other	—	—	(34)
Operating income	480	501	398
Interest expense	(91)	(66)	(49)
Other income (expense), net	13	(10)	(29)
Income tax (expense) benefit	(76)	(120)	(101)
Income (loss) from continuing operations	326	305	219
Discontinued operations, net of tax	148	120	85
Net earnings (loss)	474	425	304
Less net earnings (loss) attributable to noncontrolling interests	(2)	(4)	(4)
Net earnings (loss) attributable to Expedia, Inc.	$ 472	421	300

(8) Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of goodwill are as follows:

	QVC	E-commerce	Total
	amounts in millions		
Balance at January 1, 2010	$5,395	496	5,891
Acquisitions	—	116	116
Foreign currency translation adjustments	(23)	—	(23)
Other	(9)	8	(1)
Balance at December 31, 2010	$5,363	620	5,983
Foreign currency translation adjustments	(9)	—	(9)
Acquisitions	—	4	4
Balance at December 31, 2011	$5,354	624	5,978

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are comprised of the following:

	December 31, 2011			December 31, 2010		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	amounts in millions					
Television distribution rights	$2,305	(1,391)	914	2,313	(1,233)	1,080
Customer relationships	2,618	(1,535)	1,083	2,597	(1,333)	1,264
Other	600	(388)	212	571	(320)	251
Total	$5,523	(3,314)	2,209	5,481	(2,886)	2,595

Amortization expense for intangible assets with finite useful lives was $490 million, $426 million and $422 million for the years ended December 31, 2011, 2010 and 2009, respectively. Based on its amortizable intangible assets as of December 31, 2011, Liberty expects that amortization expense will be as follows for the next five years (amounts in millions):

2012	$451
2013	$424
2014	$394
2015	$347
2016	$336

(9) Debt

Debt is summarized as follows:

	Outstanding principal December 31, 2011	Carrying value December 31, 2011	Carrying value December 31, 2010
	amounts in millions		
Senior notes and debentures			
5.7% Senior Notes due 2013	309	308	323
8.5% Senior Debentures due 2029	287	285	284
8.25% Senior Debentures due 2030	504	501	501
Exchangeable Senior Debentures			
3.125% Exchangeable Senior Debentures due 2023	1,138	1,275	1,283
4% Exchangeable Senior Debentures due 2029	469	258	265
3.75% Exchangeable Senior Debentures due 2030	460	235	253
3.5% Exchangeable Senior Debentures due 2031	486	341	329
3.25% Exchangeable Senior Debentures due 2031	414	334	376
QVC 7.125% Senior Secured Notes due 2017	500	500	500
QVC 7.5% Senior Secured Notes due 2019	1,000	986	985
QVC 7.375% Senior Secured Notes due 2020	500	500	500
QVC Bank Credit Facilities	434	434	785
Other subsidiary debt	82	82	79
Total consolidated Liberty debt	$6,583	6,039	6,463
Less current maturities		(1,189)	(493)
Total long-term debt		$4,850	5,970

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 19.1360 shares of Time Warner Inc. common stock, 4.8033 shares of Time Warner Cable Inc. common stock and 1.7396 shares of AOL Inc. common stock. Liberty may, at its election, pay the exchange value in cash, Time Warner, Time Warner Cable and AOL 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 at par, and Liberty, at its election, may pay the purchase price in shares of Time Warner, Time Warner Cable and AOL common stock, cash, Liberty common stock, or any combination thereof.

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 .7860 shares of Century Link, Inc. ("Century Link") common stock. Liberty may, at its election, pay the exchange value in cash, Sprint and Century Link 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 .5746 shares of Century Link common stock. Liberty may, at its election, pay the exchange value in cash, Sprint and Century Link 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 5.2598 shares of Motorola Solutions, Inc. and 4.6024 shares of Motorola Mobility Holdings, Inc., as a result of Motorola Inc.'s separation of Motorola Mobility Holdings, Inc. ("MMI") in a 1 for 8 stock distribution, and the subsequent 1 for 7 reverse stock split of Motorola, Inc. (which has been renamed Motorola Solutions, Inc. ("MSI")), effective January 4, 2011. Such exchange value is payable, at Liberty's option, in cash, MMI and MSI 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 and principal payments made to holders of the Motorola Exchangeables, the adjusted principal amount of each $1,000 debenture is $809.90, as of December 31, 2011. Additionally, MMI is being acquired for cash which is a trigger for Liberty to repay a portion of the outstanding principal amount if the acquisition is completed. If the acquisition is completed it is estimated that Liberty would be required to make a cash payment of approximately $110 million toward the principal amount of the Motorola Exchangeables.

Each $1,000 debenture of Liberty's 3.25% Exchangeable Senior Debentures (the "Viacom Exchangeables") 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. 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.

Liberty has sold, split-off or otherwise disposed of all of its shares of Motorola, Viacom, CBS, Sprint and Century Link common stock which underlie the respective Exchangeable Senior Debentures. Because such exchangeable debentures are exchangeable at the option of the holder at any time and Liberty can no longer use shares it owns to redeem the debentures, Liberty has classified for financial reporting purposes the portion of the debentures that could be redeemed for cash as a current liability. Such amount aggregated $1,168 million at December 31, 2011. Although such amount has been classified as a current liability for financial reporting purposes, the Company believes the probability that the holders of such instruments will exchange a significant principal amount of the debentures prior to maturity is remote.

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.

Senior Notes and Debentures

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

The Senior Notes and Senior Debentures are stated net of an aggregate unamortized discount of $6 million and $7 million at December 31, 2011 and 2010, respectively. Such discount is being amortized to interest expense in the accompanying consolidated statements of operations.

QVC Senior Secured Notes

During prior years, QVC issued $500 million principal amount of 7.125% Senior Secured Notes due 2017 and $500 million 7.375% Senior Secured Notes due 2020 at par. Additionally, QVC issued $1,000 million principal amount of QVC Senior Secured Notes due 2019 at an issue price of 98.278% of par.

QVC Bank Credit Facilities

The QVC Bank Credit Facilities provide for a $2 billion revolving credit facility, with a $250 million sub-limit for standby letters of credit. QVC may elect that the loans extended under the revolving credit agreement bear interest at a rate per annum equal to the ABR Rate or LIBOR, as each is defined in the credit agreement, plus a margin of 0.50% to 3.00% depending on various factors, including leverage ratio. The facility is a multi-currency facility and there is no prepayment penalty. Availability under the QVC Bank Credit Facilities at December 31, 2011 was $1.6 billion. The $434 million outstanding principal matures in September 2015.

QVC was in compliance with all of its debt covenants at December 31, 2011.

QVC Interest Rate Swap Arrangements

During the third quarter of 2009, QVC entered into seven forward interest rate swap arrangements with an aggregate notional amount of $1.75 billion. Such arrangements provided for payments that began in March 2011 and extend to March 2013. QVC makes fixed payments at rates ranging from 2.98% to 3.67% and receives variable payments at 3 month LIBOR (0.55% at December 31, 2011). During the year ended December 31, 2011 QVC entered into seven additional swap arrangements with an aggregate notional amount of $1.35 billion requiring QVC to make variable payments at 3 month LIBOR (0.55% at December 31, 2011) and receive fixed payments at rates ranging from 0.57% to 0.95%. These swap arrangements do not qualify as cash flow hedges under GAAP. Accordingly, changes in the fair value of the swaps are reflected in realized and unrealized gains or losses on financial instruments in the accompanying consolidated statements of operations.

Other Subsidiary Debt

Other subsidiary debt at December 31, 2011 is comprised of capitalized satellite transponder lease obligations and bank debt of certain subsidiaries.

Five Year Maturities

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

2012	$ 27
2013	$322
2014	$ 12
2015	$446
2016	$ 11

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 sheet at December 31, 2011 is as follows (amounts in millions):

Senior notes	$ 324
Senior debentures	$ 780
QVC senior secured notes	$2,202

Due to the variable rate nature, Liberty believes that the carrying amount of its subsidiary debt not discussed above approximated fair value at December 31, 2011.

(10) Income Taxes

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
Current:			
Federal	$(156)	(85)	(119)
State and local	(32)	6	(49)
Foreign	(120)	(111)	(85)
	$(308)	(190)	(253)
Deferred:			
Federal	$ (42)	27	249
State and local	(6)	21	46
Foreign	4	14	3
	(44)	62	298
Income tax benefit (expense)	$(352)	(128)	45

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,		
	2011	2010	2009
	amounts in millions		
Computed expected tax benefit (expense)	$(329)	(339)	29
Nontaxable exchange of investments for subsidiary	—	112	—
State and local income taxes, net of federal income taxes	(22)	18	(7)
Foreign taxes, net of foreign tax credits	(3)	48	(4)
Change in valuation allowance affecting tax expense	(15)	—	—
Nontaxable gains (losses) related to the Company's common stock	8	27	20
Other, net	9	6	7
Income tax benefit (expense)	$(352)	(128)	45

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,	
	2011	2010
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 70	40
Accrued stock compensation	44	33
Other accrued liabilities	69	154
Deferred revenue	5	9
Other future deductible amounts	144	92
Deferred tax assets	332	328
Valuation allowance	(16)	(1)
Net deferred tax assets	316	327
Deferred tax liabilities:		
Investments	190	115
Intangible assets	1,661	1,718
Discount on exchangeable debentures	978	947
Deferred gain on debt retirements	321	313
Other	63	95
Deferred tax liabilities	3,213	3,188
Net deferred tax liabilities	$2,897	2,861

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

	December 31,	
	2011	2010
	amounts in millions	
Current deferred tax liabilities	$ 851	152
Long-term deferred tax liabilities	2,046	2,709
Net deferred tax liabilities	$2,897	2,861

The Company's valuation allowance increased $15 million in 2011 all of which affected tax expense.

At December 31, 2011, Liberty had federal net operating and capital loss carryforwards for income tax purposes aggregating approximately $67 million which, if not utilized to reduce taxable income in future periods, $16 million will expire in 2013, $27 million will expire in 2016 and $24 million will expire after 2016. The foregoing net operating and capital loss carryforwards are subject to certain limitations and may not be currently utilized.

A reconciliation of unrecognized tax benefits is as follows:

	Years ended December 31,	
	2011	2010
	amounts in millions	
Balance at beginning of year	$123	160
Additions based on tax positions related to the current year	13	11
Additions for tax positions of prior years	3	3
Reductions for tax positions of prior years	(5)	(23)
Lapse of statute and settlements	(11)	(28)
Balance at end of year	$123	123

As of December 31, 2011, the Company had recorded tax reserves of $123 million related to unrecognized tax benefits for uncertain tax positions. If such tax benefits were to be recognized for financial statement purposes, $71 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, 2011, the Company's 2001 through 2007 tax years are closed for federal income tax purposes, and the IRS has completed its examination of the Company's 2008 through 2010 tax years. The Company's tax loss carryforwards from its 2008 through 2010 tax years are still subject to adjustment. The Company's 2011 tax year is being examined currently as part of the IRS's Compliance Assurance Process ("CAP") program. Various states are currently examining the Company's prior years state income tax returns. The Company is currently under audit in the UK 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 $6 million.

As of December 31, 2011, the Company had recorded $23 million of accrued interest and penalties related to uncertain tax positions.

(11) 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, 2011, no shares of preferred stock were issued.

Common Stock

Series A Liberty Interactive common stock has one vote per share, and Series B Liberty Interactive common stock 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 participate on an equal basis with respect to dividends and distributions.

As of December 31, 2011, Liberty reserved for issuance upon exercise of outstanding stock options approximately 45.2 million shares of Liberty Interactive Series A common stock and 0.5 million shares of Liberty Interactive Series B common stock.

In addition to the Series A and Series B Liberty Interactive common stock there are 4 billion shares of Series C common stock authorized for issuance. As of December 31, 2011, no shares of any Series C common stock were issued or outstanding.

Purchases of Common Stock

As described in note 4, in November 2009, Liberty redeemed 90% of its outstanding Liberty Entertainment common stock for shares of LEI, and the Liberty Entertainment common stock was redesignated as Liberty Starz common stock.

During the year ended December 31, 2009, the Company repurchased 642,400 shares of Series A Liberty Capital common stock for aggregate cash consideration of $5 million and 272,400 shares of Series A Liberty Starz common stock for aggregate cash consideration of $13 million.

During the year ended December 31, 2010 the Company repurchased 15,632,700 shares of Series A Liberty Capital common stock for aggregate cash consideration of $714 million and 835,700 shares of Series A Liberty Starz common stock for aggregate cash consideration of $40 million.

During the year ended December 31, 2011 the Company repurchased 3,146,913 shares of Series A Liberty Capital common stock for aggregate cash consideration of $213 million (through the LMC Split-Off date) and 23,864,733 shares of Series A Liberty Interactive common stock for aggregate cash consideration of $366 million.

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.

As of December 31, 2011, put options with respect to 3 million shares of Series A Liberty Interactive common stock with a weighted average put price of $15.50 remained outstanding. Such put options expire in March 2012.

The Company accounts for the foregoing put options as financial instrument liabilities at fair value due to their settlement provisions. Accordingly, changes in the fair value of these liabilities are included in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statements of operations.

(12) Transactions with Officers and Directors

Chief Executive Officer Compensation Arrangement

On December 17, 2009, the Compensation Committee (the "Committee") of Liberty approved a new compensation arrangement for its President and Chief Executive Officer (the "CEO"). The arrangement provides for a five year employment term beginning January 1, 2010 and ending December 31, 2014, with an annual base salary of $1.5 million, increasing annually by 5% of the prior year's base salary, and an annual target cash bonus equal to 200% of the applicable year's annual base salary. The arrangement also provides that, in the event the CEO is terminated for "cause" or terminates his employment without "good reason," he will be entitled only to his accrued base salary and any amounts due under applicable law, and he will forfeit all rights to his unvested restricted shares and unvested options. If, however, the CEO is terminated by Liberty without cause or if he terminates his employment for good reason, the arrangement provides for him to receive $7.8 million and for his unvested restricted shares and unvested options to vest pro rata based on the portion of the term elapsed through the termination date plus 18 months and for all vested and accelerated options to remain exercisable until their respective expiration dates. Lastly, in the case of the CEO's death or his disability, the arrangement provides for a payment of $7.8 million, for his unvested restricted shares and unvested options to fully vest and for his vested and accelerated options to remain exercisable until their respective expiration dates.

Also, on December 17, 2009, in connection with the approval of his compensation arrangement, the CEO received a one-time grant of options to purchase the following shares of Liberty with exercise prices equal to the closing sale prices of the applicable series of stock on the grant date: 8,743,000 shares of Series A Liberty Interactive common stock, 760,000 shares of Series A Liberty Starz common stock and 1,353,000 shares of Series A Liberty Capital common stock. One-half of the options will vest on the fourth anniversary of the grant date with the remaining options vesting on the fifth anniversary of the grant date, in each case, subject to the CEO being employed by Liberty on the applicable vesting date. The options will have a term of 10 years.

Salary compensation related to services provided are allocated from LMC to Liberty pursuant to the Services Agreement. Any cash bonus attributable to the performance of Liberty is paid directly by Liberty. The stock options relating to Liberty Capital common stock and Liberty Starz common stock were assumed by LMC at the time of the LMC Split-Off.

Chief Executive Officer Investment in Subsidiary

During 2009, 2010 and 2011, the CEO invested $4 million cash in Lockerz, LLC, an equity method affiliate of Liberty. The CEO's ownership interest is approximately 15% at December 31, 2011.

(13) Stock-Based Compensation

Liberty—Incentive Plans

Pursuant to the Liberty Interactive Corporation 2000 Incentive Plan, as amended from time to time (the "2000 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 Interactive common stock. The 2000 Plan provides for Awards to be issued in respect of a maximum of 28.1 million shares of Liberty common stock. On May 1, 2007, stockholders of the Company approved the Liberty Interactive Corporation 2007 Incentive Plan, as amended from time to time (the "2007 Plan"). The 2007 Plan provides for Awards to be made in respect of a maximum of 38.2 million shares of Liberty common stock. Additionally, on June 24, 2010, stockholders of the Company approved the Liberty Interactive Corporation 2010 Incentive Plan, as amended from time to time (the "2010 Plan"). The 2010 Plan provides for Awards to be made in respect of a maximum of 40.9 million shares of Liberty common stock. Awards generally vest over 4-5 years and have a term of 7-10 years. Liberty issues new shares upon exercise of equity awards.

Pursuant to the Liberty Interactive Corporation 2002 Nonemployee Director Incentive Plan, as amended from time to time (the "2002 NDIP") and the Liberty Interactive Corporation 2011 Nonemployee Director Incentive Plan, as amended from time to time (the "2011 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

During the year ended December 31, 2011, Liberty granted, primarily to QVC employees, 6.2 million options to purchase shares of Series A Liberty Interactive common stock. Such options had a weighted average grant-date fair value of $7.32 per share. Of these grants, 3.8 million options were granted to the CEO of QVC; of those 3.8 million options, one half vest December 15, 2014 and the other half vest on December 15, 2015. The remainder of the options granted primarily vest semi-annually over the 4 year vesting period.

During the years ended December 31, 2010 and 2009 the Company granted, approximately 10.6 million and 17.5 million options to purchase shares of Series A Liberty Interactive common stock, respectively. Such options had a weighted average grant-date fair value of $7.11 and $3.57 per share, respectively.

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. The Company estimates the expected term of the Awards based on historical exercise and forfeiture data. For grants made in 2011, 2010 and 2009, the range of expected terms was 5.7 to 6.0 years. 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 presents the range of volatilities used by Liberty in the Black-Scholes Model for the 2011, 2010 and 2009 Liberty Interactive grants.

	Volatility
2011	44.8% - 47.5%
2010	44.8% - 46.4%
2009	36.0% - 46.4%

Liberty—Outstanding Awards

The following table presents the number and weighted average exercise price ("WAEP") of the Awards to purchase Liberty common stock granted to certain officers, employees and directors of the Company.

	Liberty Interactive			
	Series A (000's)	WAEP	Series B (000's)	WAEP
	Number of Options in thousands			
Outstanding at January 1, 2011	47,583	$12.10	7,491	$23.41
Granted	6,158	$15.96	—	$ —
Exercised	(2,805)	$ 4.79	—	$ —
Forfeited/Cancelled/Exchanged	(5,713)	$20.25	(7,041)	$23.64
Outstanding at December 31, 2011	45,223	$12.06	450	$19.74
Exercisable at December 31, 2011	16,155	$12.96	450	$19.74

The following table provides additional information about outstanding Awards to purchase Liberty common stock at December 31, 2011.

	No. of outstanding Awards (000's)	WAEP of outstanding Awards	Weighted average remaining life	Aggregate intrinsic value (000's)	No. of exercisable Awards (000's)	WAEP of exercisable Awards	Weighted average remaining life	Aggregate intrinsic value (000's)
Series A Liberty Interactive	45,223	$12.06	5.2 years	$214,557	16,155	$12.96	3.1 years	$78,879
Series B Liberty Interactive	450	$19.74	3.4 years	$ —	450	$19.74	3.4 years	$ —

As of December 31, 2011, the total unrecognized compensation cost related to unvested Liberty equity Awards was approximately $109 million. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 2.1 years.

Liberty—Exercises

The aggregate intrinsic value of all options exercised during the years ended December 31, 2011, 2010 and 2009 was $33 million, $23 million and $2 million, respectively.

Liberty—Restricted Stock

The Company had approximately 2.1 million shares of unvested restricted Liberty Interactive common stock held by certain directors, officers and employees of the Company, with a weighted average grant date fair value of $11.31 per share, as of December 31, 2011.

The aggregate fair value of all restricted shares of Liberty Interactive common stock that vested during the years ended December 31, 2011, 2010 and 2009 was $14 million, $10 million and $3 million, respectively.

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.

(14) Employee Benefit Plans

Subsidiaries of Liberty sponsor 401(k) plans, which provide their employees an opportunity to make contributions to a trust for investment in Liberty common stock, as well as other mutual funds. The Company's subsidiaries make matching contributions to their plans based on a percentage of the amount contributed by employees. Employer cash contributions to all plans aggregated $18 million, $16 million and $18 million for the years ended December 31, 2011, 2010 and 2009, respectively.

(15) Other Comprehensive Earnings (Loss)

Accumulated other comprehensive earnings (loss) included in Liberty's consolidated balance sheets and consolidated statements of 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	AOCI of discontinued operations	AOCI
			amounts in millions			
Balance at January 1, 2009	$217	(3)	(6)	(103)	(35)	70
Other comprehensive earnings (loss) attributable to Liberty Interactive Corporation stockholders	8	160	(5)	47	72	282
Balance at December 31, 2009	225	157	(11)	(56)	37	352
Other comprehensive earnings (loss) attributable to Liberty Interactive Corporation stockholders	(52)	(157)	7	56	20	(126)
Balance at December 31, 2010	173	—	(4)	—	57	226
Other comprehensive earnings (loss) attributable to Liberty Interactive Corporation stockholders	(15)	—	(2)	—	(26)	(43)
Distribution to stockholders for split-off of Liberty Media Corporation	—	—	—	—	(31)	(31)
Balance at December 31, 2011	$158	—	(6)	—	—	152

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, 2011:			
Foreign currency translation adjustments	$ (18)	7	(11)
Unrealized holding gains (losses) on securities arising during period	—	—	—
Reclassification adjustment for holding (gains) losses realized in net earnings (loss)	—	—	—
Share of other comprehensive earnings (loss) of equity affiliates	(3)	1	(2)
Other	—	—	—
Other comprehensive earnings (loss) from discontinued operations	$ (42)	16	(26)
Other comprehensive earnings (loss)	$ (63)	24	(39)
Year ended December 31, 2010:			
Foreign currency translation adjustments	$ (60)	23	(37)
Unrealized holding gains (losses) on securities arising during period	66	(25)	41
Reclassification adjustment for holding (gains) losses realized in net earnings (loss)	(319)	121	(198)
Share of other comprehensive earnings (loss) of equity affiliates	11	(4)	7
Other	90	(34)	56
Other comprehensive earnings (loss) from discontinued operations	32	(12)	20
Other comprehensive earnings (loss)	$(180)	69	(111)
Year ended December 31, 2009:			
Foreign currency translation adjustments	$ 2	(1)	1
Unrealized holding gains (losses) on securities arising during period	302	(115)	187
Reclassification adjustment for holding (gains) losses realized in net earnings (loss)	(44)	17	(27)
Share of other comprehensive earnings (loss) of equity affiliates	(8)	3	(5)
Other	76	(29)	47
Other comprehensive earnings (loss) from discontinued operations	116	(44)	72
Other comprehensive earnings (loss)	$ 444	(169)	275

(16) Transactions with Related Parties

During the year ended December 31, 2009 subsidiaries of Liberty recognized aggregate revenue of $303 million from DIRECTV for distribution of their programming. In addition, subsidiaries of Liberty made aggregate payments of $40 million in 2009 to DIRECTV for carriage and marketing.

(17) Commitments and Contingencies

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 $46 million, $38 million and $36 million for the years ended December 31, 2011, 2010 and 2009, respectively.

A summary of future minimum lease payments under noncancelable operating leases as of December 31, 2011 follows (amounts in millions):

Years ending December 31:	
2012	$ 40
2013	$ 35
2014	$ 25
2015	$ 22
2016	$ 20
Thereafter	$113

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 2011.

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.

(18) 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 industries. Liberty identifies its reportable segments as (A) those consolidated subsidiaries that represent 10% or more of its consolidated annual revenue, annual Adjusted OIBDA or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of Liberty's annual 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 unique 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, 2011, Liberty has identified the following consolidated subsidiaries and equity method affiliates as its reportable segments:

- QVC—consolidated subsidiary that markets and sells a wide variety of consumer products in the United States and several foreign countries, primarily by means of its televised shopping programs and via the Internet through its domestic and international websites.
- Expedia, Inc.—a 26% owned equity method affiliate that operates an easily accessible global travel marketplace, allowing customers to research, plan and book travel products and services from travel suppliers and allowing these travel suppliers to efficiently reach and provide their products and services to Expedia customers.

Additionally, for presentation purposes Liberty is providing financial information of the E-commerce businesses on an aggregated basis. The consolidated businesses do not contribute significantly to the overall operations of Liberty on an individual basis; however, Liberty believes that on an aggregated basis they provide relevant information for users of these financial statements. While these businesses may not meet the aggregation criteria under relevant accounting literature Liberty believes the information is relevant and helpful for a more complete understanding of the consolidated results.

- E-commerce—the aggregation of certain consolidated subsidiaries that market and sell a wide variety of consumer products via the Internet. Categories of consumer products include perishable and personal gift offerings (Provide Commerce, Inc.), active lifestyle gear and clothing (Backcountry.com, Inc.), fitness and health goods (Bodybuilding.com, LLC) and celebration offerings from invitations to costumes (Celebrate Interactive Holdings, Inc.).

Liberty's operating 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 Company's summary of significant accounting policies.

Performance Measures

	Years ended December 31,					
	2011		2010		2009	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
	amounts in millions					
QVC	$ 8,268	1,733	7,807	1,671	7,352	1,556
E-commerce	1,348	123	1,125	103	953	112
Expedia, Inc.	3,449	699	3,034	683	2,743	605
Corporate and other	—	(33)	—	(28)	—	(14)
Total	$13,065	2,522	11,966	2,429	11,048	2,259
Eliminate equity method affiliates	(3,449)	(699)	(3,034)	(683)	(2,743)	(605)
Consolidated	$ 9,616	1,823	8,932	1,746	8,305	1,654

Other Information

	December 31, 2011			December 31, 2010		
	Total assets	Investments in affiliates	Capital expenditures	Total assets	Investments in affiliates	Capital expenditures
	amounts in millions					
QVC	$13,554	—	259	13,665	2	220
E-commerce	1,486	13	53	1,399	6	38
Expedia, Inc.	6,505	—	208	6,657	—	136
Corporate and other	2,299	1,122	—	11,536	941	—
Total	$23,844	1,135	520	33,257	949	394
Eliminate equity method affiliates	(6,505)	—	(208)	(6,657)	—	(136)
Consolidated	$17,339	1,135	312	26,600	949	258

The following table provides a reconciliation of segment Adjusted OIBDA to earnings (loss) from continuing operations before income taxes:

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
Consolidated segment Adjusted OIBDA	$1,823	1,746	1,654
Stock-based compensation	(49)	(67)	(47)
Depreciation and amortization	(641)	(571)	(566)
Interest expense	(427)	(626)	(594)
Share of earnings (loss) of affiliates, net	140	112	24
Realized and unrealized gains (losses) on financial instruments, net	84	62	(589)
Gains (losses) on dispositions, net	—	355	42
Other, net	9	(47)	(6)
Earnings (loss) from continuing operations before income taxes	$ 939	964	(82)

Revenue by Geographic Area

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

	Years ended December 31,		
	2011	2010	2009
	amounts in millions		
United States	$6,670	6,298	5,884
Japan	1,133	1,019	870
Germany	1,068	956	942
Other foreign countries	745	659	609
	$9,616	8,932	8,305

Long-lived Assets by Geographic Area

	December 31,	
	2011	2010
	amounts in millions	
United States	$ 481	473
Japan	224	183
Germany	233	216
Other foreign countries	195	166
	$1,133	1,038

(19) Quarterly Financial Information (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	amounts in millions, except per share amounts			
2011:				
Revenue	$2,159	2,245	2,133	3,079
Gross Profit	$ 782	847	769	1,104
Operating income	$ 213	288	224	408
Earnings from continuing operations	$ 63	195	25	304
Net earnings (loss) attributable to Liberty Interactive Corporation stockholders:				
Series A and Series B Liberty Capital common stock	$ 293	8	(90)	—
Series A and Series B Liberty Starz common stock	$ 52	67	58	—
Series A and Series B Liberty Interactive common stock	$ 44	182	13	285
Basic earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	$ 0.12	—	—	NA
Series A and Series B Liberty Starz common stock	$ —	—	—	NA
Series A and Series B Liberty Interactive common stock	$ 0.07	0.30	0.02	0.49
Diluted earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	$ 0.12	—	—	NA
Series A and Series B Liberty Starz common stock	$ —	—	—	NA
Series A and Series B Liberty Interactive common stock	$ 0.07	0.30	0.02	0.48
Basic net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	$ 3.57	0.10	(1.11)	NA
Series A and Series B Liberty Starz common stock	$ 1.02	1.31	1.14	NA
Series A and Series B Liberty Interactive common stock	$ 0.07	0.30	0.02	0.49
Diluted net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	$ 3.49	0.10	(1.11)	NA
Series A and Series B Liberty Starz common stock	$ 0.98	1.26	1.09	NA
Series A and Series B Liberty Interactive common stock	$ 0.07	0.30	0.02	0.48

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	amounts in millions, except per share amounts			
2010:				
Revenue	$2,025	2,053	1,968	2,886
Gross Profit	$ 731	769	714	1,013
Operating income	$ 218	274	220	396
Earnings from continuing operations	$ 246	38	102	450
Net earnings (loss) attributable to Liberty Interactive Corporation stockholders:				
Series A and Series B Liberty Capital common stock	$ 22	(82)	26	849
Series A and Series B Liberty Starz common stock	$ 57	61	48	40
Series A and Series B Liberty Interactive common stock	$ 310	58	105	398
Basic earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	$ 0.38	(0.28)	(0.21)	0.40
Series A and Series B Liberty Starz common stock	$ —	—	—	—
Series A and Series B Liberty Interactive common stock	$ 0.33	0.10	0.18	0.67
Diluted earnings (loss) from continuing operations attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	$ 0.37	(0.28)	(0.21)	0.39
Series A and Series B Liberty Starz common stock	$ —	—	—	—
Series A and Series B Liberty Interactive common stock	$ 0.33	0.10	0.17	0.66
Basic net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	$ 0.23	(0.86)	0.30	9.43
Series A and Series B Liberty Starz common stock	$ 1.14	1.22	0.96	0.80
Series A and Series B Liberty Interactive common stock	$ 0.52	0.10	0.18	0.67
Diluted net earnings (loss) attributable to Liberty Interactive Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	$ 0.22	(0.86)	0.29	9.13
Series A and Series B Liberty Starz common stock	$ 1.10	1.20	0.92	0.77
Series A and Series B Liberty Interactive common stock	$ 0.51	0.10	0.17	0.66

CORPORATE DATA

BOARD OF DIRECTORS

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Chairman of the Board
Liberty Interactive Corporation

Michael A. George
President and CEO
QVC, Inc.

M. Ian G. Gilchrist
Retired Investment Banker

Gregory B. Maffei
President and CEO
Liberty Interactive Corporation

Evan D. Malone, Ph.D.
President
NextFab Studio, LLC

David E. Rapley
President and CEO
Rapley Consulting, Inc.

M. LaVoy Robison
Director
The Anschutz Foundation

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

Andrea L. Wong
President, International Production
Sony Pictures Television
President, International
Sony Pictures Entertainment

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EXECUTIVE COMMITTEE

Gregory B. Maffei
John C. Malone

COMPENSATION COMMITTEE

M. Ian G. Gilchrist *(Chairman)*
David E. Rapley
Andrea L. Wong

AUDIT COMMITTEE

M. LaVoy Robison *(Chairman)*
M. Ian G. Gilchrist
David E. Rapley
Larry E. Romrell

NOMINATING & CORPORATE GOVERNANCE COMMITTEE

David E. Rapley *(Chairman)*
M. Ian G. Gilchrist
Larry E. Romrell
Andrea L. Wong

OFFICERS

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Chairman of the Board

Gregory B. Maffei
President and CEO

Charles Y. Tanabe
Executive Vice President
and General Counsel

David J. A. Flowers
Senior Vice President

Albert E. Rosenthaler
Senior Vice President

Michael P. Zeisser
Senior Vice President

Christopher W. Shean
Senior Vice President and CFO

CORPORATE SECRETARY

Pamela L. Coe

STOCK INFORMATION

Series A and B Liberty Interactive Common Stocks (LINTA/B) trade on the NASDAQ Global Select Market.

CUSIP NUMBERS

LINTA – 53071M 104
LINTB – 53071M 203

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LIBERTY INTERACTIVE ON THE INTERNET

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FINANCIAL STATEMENTS

Liberty Interactive 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 Interactive's website.

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