



A-97588
NEW TODAY
ISAACMIZRAHLIVE!
Wool Blend
Duffle
Toggle
Coat

QVC Price
\$224.50
Holiday Surprise Price
\$191.52

3 Easy Payments
\$63.84
S&H \$10.22

Coming Up:
10 PM ET **2 HOURS**
philosophy

Return Gifts Until 1/31/10... Hassle Free
800-345-1515 QVC.com **HOT PICK**

Wherever you
see it,
hear it,
play it
or buy it...



2009 Annual Report

115,000,000+ phone calls handled worldwide by QVC in 2009

30,000,000th ProFlowers order shipped

18,944,199 SIRIUS XM subscribers

14,200,000 members on Lockerz.com and adding 75,000 a day

2,632,289 Backcountry.com orders fulfilled in 2009

2,373,631 fans watched the Atlanta Braves at Turner field

1,000,000 unique visitors to QVC.com on Cyber Monday 2009

536,497 active BodySpace Profiles at BodyBuilding.com

50,000+ videos on average available at QVC.com

1,000+ movies and original series air on Starz and Encore each month

133 Braves radio stations, the largest radio network in all of sports

130+ channels of satellite radio available on SIRIUS XM

3.8 packages per second are delivered across the U.S. by QVC

#1 among all Friday premium programs for 13 straight weeks - *Spartacus*

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

- *customer demand for our products and services and our ability to adapt to changes in demand;*
- *competitor responses to our products and services, and the products and services of the entities in which we have interests;*
- *uncertainties inherent in the development and integration of new business lines and business strategies;*
- *uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies;*
- *our future financial performance, including availability, terms and deployment of capital;*
- *our ability to successfully integrate and recognize anticipated efficiencies and benefits from the businesses we acquire;*
- *the ability of suppliers and vendors to deliver products, equipment, software and services;*
- *the outcome of any pending or threatened litigation;*
- *availability of qualified personnel;*
- *changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;*
- *changes in the nature of key strategic relationships with partners, vendors and joint venturers;*
- *general economic and business conditions and industry trends including the current economic downturn;*
- *consumer spending levels, including the availability and amount of individual consumer debt;*
- *disruption in the production of theatrical films or television programs due to strikes by unions representing writers, directors or actors;*
- *continued consolidation of the broadband distribution and movie studio industries;*
- *changes in distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand and IP television and their impact on home shopping networks;*
- *increased digital TV penetration and the impact on channel positioning of our networks;*
- *rapid technological changes;*
- *capital spending for the acquisition and/or development of telecommunications networks and services;*
- *the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate;*
- *threatened terrorist attacks and ongoing military action in the Middle East and other parts of the world; and*
- *fluctuations in foreign currency exchange rates and political unrest in international markets.*

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

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

Dear Fellow Shareholders:

Liberty Media holds a diverse set of telecom, media and technology (TMT) businesses and investments, largely as a legacy of our founding as the “content arm” of TCI. Our principal aim is to build value for our shareholders and this has led us to create tracking stock groups that provide choice and greater transparency, spin-out logically grouped assets to further our business objectives, efficiently monetize our investments in non-core, non-consolidated, less attractive businesses and investments, and opportunistically reinvest our cash.

Where We Excel

Last year we mentioned Liberty’s strengths, but it is worth restating them. We believe that we:

- Have a shareholder-centric culture – We think like owners and are focused on long-term gains rather than short-term results. The compensation structure of our management team is closely tied to our stock price, more than is typical for our peers;
- Are forward-looking – We seek to take advantage of the benefits and minimize the risks associated with the digital transition in the industries in which we invest;
- Empower management – We invest in strong teams, provide strategic input and capital, and work to empower our teams;
- Are nimble – Our structure and focus allow us to move quickly when opportunities arise and we can be creative in our deal structures; and
- Demonstrate financial expertise – We have experience in mergers, divestitures, investing, capital deployment, credit analysis and setting capital structures.

The Economic Climate

Entering 2009, we were concerned about the state of the economy – the depressed stock market, the instability of financial institutions, rising unemployment and the future effects of government spending to name a few. Many of our operations were challenged. It was an uncertain time, but also an opportunity that we attempted to take advantage of. We sought to buy or invest in new companies, increase our existing equity stakes, and invest in debt of TMT companies through our debt fund. We also repurchased Liberty’s debentures when they were trading at steep discounts to face value.

What We Did Well

We completed two major transactions in 2009 that created substantial value for our shareholders. In March 2009, with a weak US car market and limited access to capital, SIRIUS XM appeared headed for bankruptcy. We saw many aspects of the satellite radio business that we liked: a large customer base, a subscription-based model, cost savings produced from the merger of SIRIUS and XM, the potential rebound of the US car market,

and a strong management team led by Mel Karmazin. We structured a deal to help ensure SIRIUS XM's financial health by giving the company more time to realize the synergies of the SIRIUS and XM merger. We agreed to invest up to \$530 million in senior debt of SIRIUS XM and received preferred stock convertible into 40% of the common equity. We were able to invest in a way that minimized our downside risk while allowing us to participate in the upside. While we committed to invest up to \$530 million, our actual total cash investment in this initial transaction was less than \$400 million. In hindsight, our market timing could not have been better. Our initial investment was repaid within six months and our 40% equity stake became worth \$3.1 billion, as of this writing. In addition, we have bought bonds of SIRIUS XM which together, with the debt that was repaid, have generated a total of \$212 million in capital gains and interest. This set of transactions provided a significant increase in Liberty Capital's net asset value.

Another quintessential Liberty transaction was the split-off and merger of a majority of the assets of Liberty Entertainment with DIRECTV. During the height of the financial crisis, Liberty Entertainment, which consisted primarily of DIRECTV, traded at a 35% discount to its net asset value. In May 2009, we negotiated a transaction with DIRECTV involving the split-off of our stake in DIRECTV along with debt and other assets and the simultaneous merger of Liberty Entertainment (the split-off company) with DIRECTV, securing a premium for our shareholders. Liberty had acquired the majority of the DIRECTV shares through our exchange with News Corp in 2008. If we measure the value of the exchanged News Corp shares compared to the current value of the merged DIRECTV shares, our shareholders benefitted from an increase in value of nearly \$10 billion.

In addition to these major transactions, we also took other actions, mainly centered on balance sheet management, that greatly improved our liquidity profile.

- Repurchased debentures attributed to Liberty Capital at steep discounts to their face value
- Restructured the debt at QVC, extending maturities and alleviating liquidity concerns
- Reattributed certain assets and liabilities between Liberty Capital and Liberty Interactive to improve their attributed capital structures and to better align cash flows, debt and investments
- Rationalized non-core assets by selling shares of IAC, GSI Commerce and ViaSat

What We Could Have Done Better

With 20/20 hindsight, we wish we had invested more and taken even greater advantage of the market turmoil. While there might not have been another SIRIUS transaction, there were good investments available at low prices. Unfortunately, given the pending separation of Liberty Entertainment, we were not able to be opportunistic in buying back the depressed shares of our tracking stocks.

Previously, we have mentioned our ill-timed 2007 Liberty Interactive \$484 million share repurchase and 2008 incremental \$340 million investment in IAC. While we remain behind on both these transactions, improved performance at QVC, refinancing of Liberty Interactive's debt and a rally in the prices of the IAC spinco's have lessened our losses. While results at Overture Films have improved with our last four releases, we also remain behind in our investment in Starz Media. This investment originated from our desire to exit our position in IDT stock. We swapped our IDT shares for shares in IDT Entertainment and invested more to create Starz Media. Our strategy was to create a fully integrated media company that created content for multiple distribution outlets. We have yet to realize meaningful benefits and satisfactory results from this model.

Stock Performance / The Report Card

Liberty's stocks rebounded nicely in 2009 and posted gains of 247% for Liberty Interactive, 407% for Liberty Capital and 105% for Liberty Entertainment through the split-off on November 19th. We significantly outperformed the market indices and our various peer groups. The S&P Retail Index increased 50%, the S&P 500 increased 23% and the S&P Media Index increased 35% in 2009.⁽¹⁾ The 2010 trend remains positive and all the Liberty stocks are up, Liberty Interactive 47%, Liberty Capital 83% and Liberty Starz 19%. If you had been invested with Liberty since we announced our tracking stock structure in late 2005, you would have earned a compounded annual rate of return of about 23% compared to 1% for the S&P Media Index and 0% for the S&P 500 Index.

Liberty's Role

Given our structure and diversity of assets, it is worth describing the role of Liberty and our relationships with the management of our operating companies. Liberty focuses on managing liquidity and risk, effectively investing capital, driving shareholder value, reducing cost of capital, divesting non-core assets and evaluating acquisitions. The operating company management teams have great autonomy to run their day-to-day operations. We believe this corporate culture allows our managers to maximize their areas of expertise and maintain an owner-oriented attitude that can get lost in larger companies. Our companies share best practices and explore mutual business opportunities. We facilitate interactions through established events like marketing summits and the Liberty NetLeaders Forum and through informal contact among management teams.

(1) Given the tumultuous markets since 2008, it may make sense to look at the two-year performance of our equities. Since the Liberty Entertainment tracker issuance, Liberty Capital shares increased 37% and Liberty Entertainment shares increased 44% through the split-off on November 19th. These are impressive returns considering the S&P 500 and the S&P Media Index decreased by 16% and 13%, respectively, through the end of 2009. The retail market proved to be more difficult and Liberty Interactive's return for the two years was down 43%. This compares unfavorably to the S&P Retail Index, which was down 7%.

Tracking Stock Structure

We are often asked about our tracking stocks. We believe tracking stocks are beneficial, providing visibility and investor choice while maintaining flexibility. Although the tracking stock structure provides several advantages, we know that the market discounts them and it may not yield the highest value for our assets in the short-term. Since we have been net acquirers of our own shares, our shareholders have been the beneficiaries of this discount to net asset value. When there has been a clear business reason to eliminate the tracker structure, for example to raise capital and pursue acquisitions that could not otherwise be accomplished with tracking stocks, we have created asset-backed securities. We are long-term owners and will continue to evaluate structural options that drive shareholder value.

Liberty Interactive

Liberty Interactive is centered on video and online commerce through QVC and our eCommerce companies. These businesses were negatively impacted by the recession, but we did see marked improvement in the second half of the year and are optimistic about 2010.

QVC is one of the largest multimedia retailers in the world and offers unique, innovative products through its live broadcast, website and mobile platforms. QVC's business model allows for the flexibility to move and present merchandise as a direct response to what is selling and what is not. It draws an upscale, discerning and loyal customer base; the typical profile of a QVC customer is a woman aged 35-64 with above average income and media consumption. Our core customer buys from QVC approximately 15 times per year through multiple outlets. The television channel, together with QVC's website, mobile and social networking platforms (Facebook, Twitter, YouTube), has become a multimedia shopping community where customers and the inventors behind these products can engage, sharing their thoughts, ideas and experiences – an experience that reaches far beyond traditional shopping.

QVC is focused on providing compelling, new national and proprietary brands and engaging personalities to excite the customer. A benefit of the economic downturn was increased access to brand name vendors that might not have previously considered the home shopping format. These efforts resulted in the launch of QVC's largest lifestyle collection – ISAACMIZRAHILIVE! with designer Isaac Mizrahi. QVC also celebrated the launches of Kiehl's Since 1851, NARS Cosmetics, Jillian Michaels, Nintendo Wii, Rachel Zoe and Dyson. It also featured musicians, such as Justin Bieber, Melissa Etheridge and Reba McEntire, who performed on-air and offered their latest albums to customers.

To make QVC accessible to customers everywhere, at all times, and to continue building the QVC community, QVC launched a suite of mobile services, including a mobile website (m.qvc.com). QVC also launched an application for the iPhone and iPod. QVC.com continues to grow in importance and represented 29% of US sales in 2009. The QVC online community produced more than 400,000 product reviews and 2.6 million customer comments, which is 43% higher than those received by other mass merchants. We have found that customers spend the most when using all methods of ordering and conversion

rates increase when customers watch one of the 50,000 videos available, on average, on QVC.com. In fact, more than 30 million online product videos have been viewed since QVC launched this feature in 2008. These efforts helped the company hit some operational milestones – its largest Black Friday ever with \$32 million in orders (a 60% increase over 2008's Black Friday sales) and a successful Cyber Monday, with QVC.com attracting record traffic with more than 1 million unique visitors.

QVC's management team, led by Mike George, did a tremendous job in 2009. While there were concerns about the macroeconomic environment, QVC was able to return to growth in the US and its international markets in the UK, Germany and Japan. This growth was accomplished by tightly operating its business and staying true to its core values of quality, value and convenience. For the customer, they were able to present exciting, new products from brand name vendors, which helped attract new customers. In addition, improved channel positioning, more HD channel placement and increased publicity drove 40% revenue growth from new customers in the US in the fourth quarter of 2009 – the fastest growth in well over a decade. Through cost reductions in 2008 and more efficient operating models, QVC was able to gain leverage on costs and expand its operating margins. Collectively, these efforts resulted in revenue and OIBDA growth while most traditional brick and mortar retailers suffered declines.

As mentioned earlier, we dramatically improved the debt profile at QVC by renegotiating a majority of the bank debt, which had a balance of \$5.25 billion due in 2011, and completing two successful bond offerings totaling \$2 billion. We also recently completed the reattribution of certain assets and liabilities between Liberty Interactive and Liberty Capital. This reattribution provided Liberty Interactive near-term liquidity by matching long-term debt with low cash interest rates and favorable tax attributes with the strong cash flows of that group. Cumulatively, these actions extended the average life of Liberty Interactive's attributed debt by over four years.

Our eCommerce companies were able to show solid growth despite the difficult retail environment. These companies continue to be leaders in their respective markets, refining our focus on the convergence of content, community and commerce. Prevailing market estimates showed minimal growth in overall eCommerce revenue for 2009 while our eCommerce companies posted collective revenue growth of 20%. The eCommerce companies play a key role in enhancing our understanding of digital transition dynamics. Significant innovation occurs across our network of internet companies which allows us to anticipate better or respond more rapidly to industry changes. For example, in 2009 we also made an investment in Lockerz, an invitation-only social networking website company targeting Generation Z, the 13-25 year-old demographic. While Lockerz is still early in its development, as of this writing, it had 14 million members with membership increasing daily.

During the year, we continued to rationalize the portfolio of non-core assets. We sold our low-vote IAC shares and all of our GSI Commerce holdings and reattributed the Live Nation stake to Liberty Capital. We also took advantage of the down market to buy more of a core asset, increasing our holdings in HSN from 30% to 33%.

Liberty Starz

Our renamed tracker, Liberty Starz, began trading in November after the completion of the Liberty Entertainment split-off and merger with DIRECTV. The major operating asset attributed to this tracker is Starz Entertainment. Starz Entertainment posted strong results, growing revenue by 7% and adjusted OIBDA by 28% in 2009. These numbers are particularly impressive, given that Starz experienced a decrease in subscribers for both the Starz and Encore channels mainly due to the recession as households tightened their budgets and new housing starts slowed. This year, Starz plans to run joint marketing campaigns with most of its distribution partners in an effort to offset this trend.

The Starz channels are anchored by strong movie content from Sony and Disney, and the company recently extended its film output agreement with Disney. Additionally, Starz continues to expand its portfolio of original content. *Spartacus: Blood and Sand* debuted in January 2010 to record viewership. The series recently completed its first season and we have already renewed it for a second season. This January we also premiered a new CEO for Starz, Chris Albrecht. During his 20-year tenure, Chris was instrumental in establishing HBO as the pioneer and leader in original programming for a premium channel. In his brief time as head of Starz, we have announced the acquisition of *Pillars of the Earth*, a mini-series based on the best-selling novel by Ken Follett and the planned development of another original series, *Camelot*, a retelling of the Arthurian legend. While original programming will be a large part of Starz's future, we intend to keep within our stated goals for adjusted OIBDA.

Liberty Capital

Liberty Capital's strategy is to convert non-strategic assets into operating assets or cash and find attractive investments for this cash.

As mentioned previously, our transformational deal this year was our investment in SIRIUS XM. In 2009, SIRIUS added over 1.6 million subscribers and posted its first full year of positive pro forma adjusted income from operations and the first full year of positive free cash flow in the company's history. While SIRIUS has paid off the initial loans we made, we continue to believe in the value proposition of the business, and have invested in subsequent SIRIUS debt issuances, currently holding \$374 million in SIRIUS debt in addition to our 40% equity ownership.

Starz Media is also attributed to Liberty Capital and is comprised of Overture Films, Anchor Bay Entertainment, Film Roman and Starz Productions. Overture Films incurred financial losses and the production and distribution of films for theatrical release continues to be a challenging business. We are currently evaluating strategic alternatives for Overture. We do not expect the losses at Starz Media to continue at the same magnitude of the past couple years and Overture Films has had recent success with the releases of *Brooklyn's Finest*, *The Crazies*, *The Men Who Stare at Goats*, and *Law Abiding Citizen*.

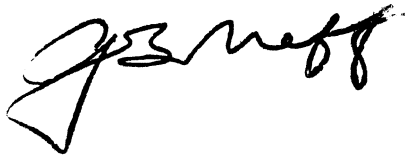
Through the maturity of derivatives, the reattribution and the reduction of debt, and the sale of non-core assets, we have simplified the capital structure of Liberty Capital and we expect this trend to continue.

Looking Ahead

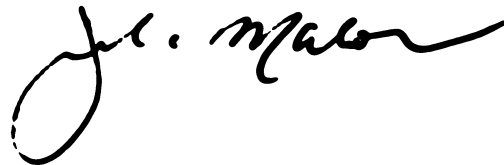
We believe there is much work to be done with the Liberty portfolio that will drive value for our shareholders. We will continue to focus on the operations of our consolidated businesses and seek to grow them organically, internationally (such as the scheduled launch of QVC Italy this fall), and through acquisitions. Additionally, we will work with the respective management teams to refine long-term strategies for our businesses and ensure that our companies have complementary capital structures to achieve these goals. The market does not give us full value for our non-consolidated investments and we will work to realize this value for our shareholders. This could involve acquisitions that cause these assets to become core or consolidated. We will also continue to monetize assets that we believe are non-core. Structurally there may be other actions we can take to get better value recognition for the businesses we do consolidate. Our biggest challenge today is identifying attractive investments for the cash that we have and will generate in the near future.

We are pleased with the transactions and accomplishments of our businesses in 2009 and are optimistic about our future opportunities. We appreciate your ongoing support.

Very truly yours,



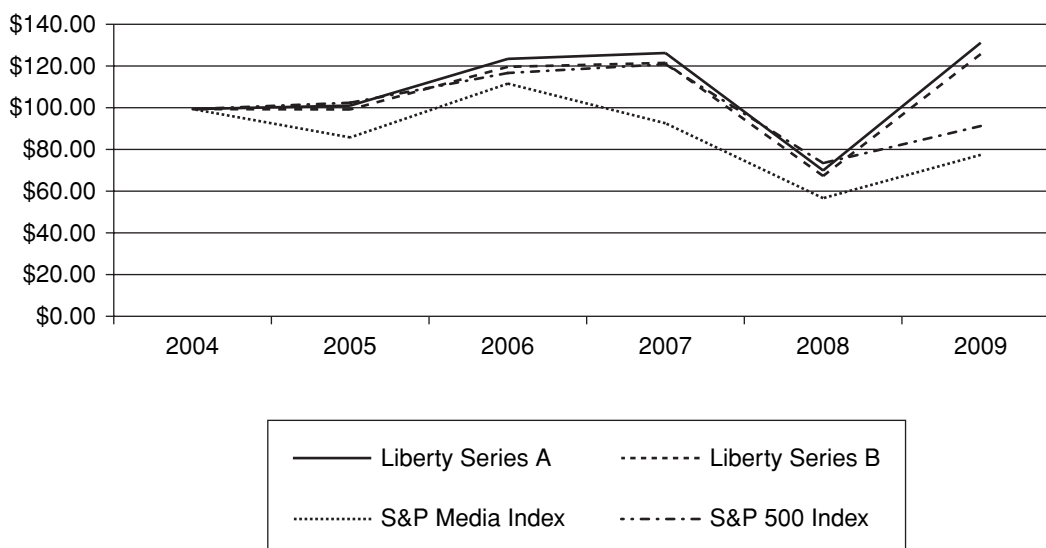
Gregory B. Maffei
President and Chief Executive Officer



John C. Malone
Chairman of the Board

The following graph compares the yearly percentage change in the cumulative total shareholder return on the former Liberty Media Corporation Series A and Series B common stock from December 31, 2003 through December 31, 2009, in comparison to the S&P 500 Media Index, which reflects the performance of companies in our peer group, and the S&P 500 Index. We have combined the tracking stock closing market prices based on the ratios used to issue the Liberty Capital group, Liberty Interactive group, and Liberty Starz group tracking stocks. The returns presented below include the May 9, 2006 restructuring in which we issued two new tracking stocks, Liberty Capital common stock and Liberty Interactive common stock, the March 3, 2008 reclassification in which we reclassified a portion of assets and liabilities previously allocated to the Liberty Capital tracking stock to the newly issued Liberty Entertainment tracking stock, and the November 19, 2009 partial redemption of the Liberty Entertainment tracking stock and concurrent redesignation as the Liberty Starz tracking stock.

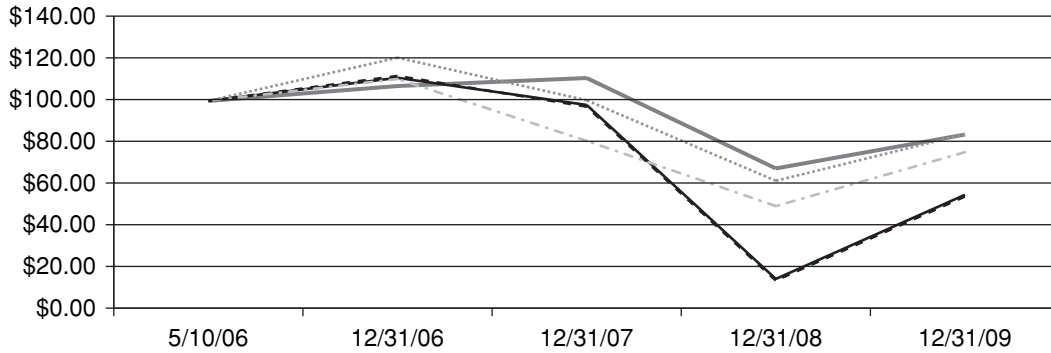
Liberty vs. S&P Media and 500 Indices
12/31/04 to 12/31/09



	<u>12/31/04</u>	<u>12/31/05</u>	<u>12/31/06</u>	<u>12/31/07</u>	<u>12/31/08</u>	<u>12/31/09</u>
Liberty Series A	\$100.00	\$101.64	\$123.69	\$126.45	\$71.05	\$131.30
Liberty Series B	\$100.00	\$ 99.83	\$119.93	\$121.80	\$68.45	\$125.96
S&P Media Index	\$100.00	\$ 86.63	\$112.01	\$ 93.31	\$57.98	\$ 78.42
S&P 500 Index	\$100.00	\$103.00	\$117.03	\$121.16	\$74.53	\$ 92.01

The following graph compares the percentage change in the cumulative total shareholder return on the Liberty Interactive Series A and Series B tracking stocks from May 10, 2006 through December 31, 2009, 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 & Retail Indices
5/10/06 to 12/31/09**

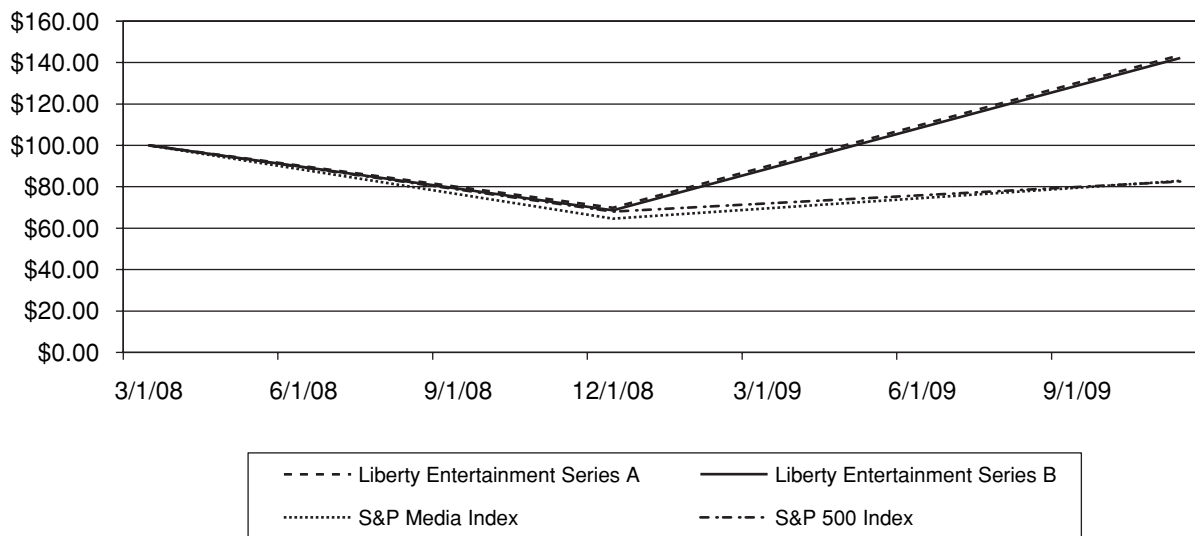


———— Liberty Interactive Series A	----- Liberty Interactive Series B
..... S&P Media Index	----- S&P Retail Index
———— S&P 500 Index	

	<u>5/10/2006</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>
Liberty Interactive Series A	\$100.00	\$110.90	\$ 98.10	\$16.04	\$55.73
Liberty Interactive Series B	\$100.00	\$111.76	\$ 97.34	\$15.29	\$54.94
S&P Media Index	\$100.00	\$120.41	\$100.31	\$62.33	\$84.30
S&P 500 Index	\$100.00	\$107.03	\$110.81	\$68.16	\$84.15
S&P Retail Index	\$100.00	\$110.34	\$ 81.15	\$50.41	\$75.82

The following graph compares the percentage change in the cumulative total shareholder return on the Liberty Capital Series A and Series B tracking stocks March 4, 2008 through December 31, 2009, in comparison to the S&P Media Index and the S&P 500 Index.

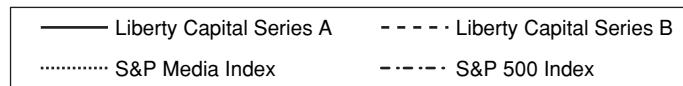
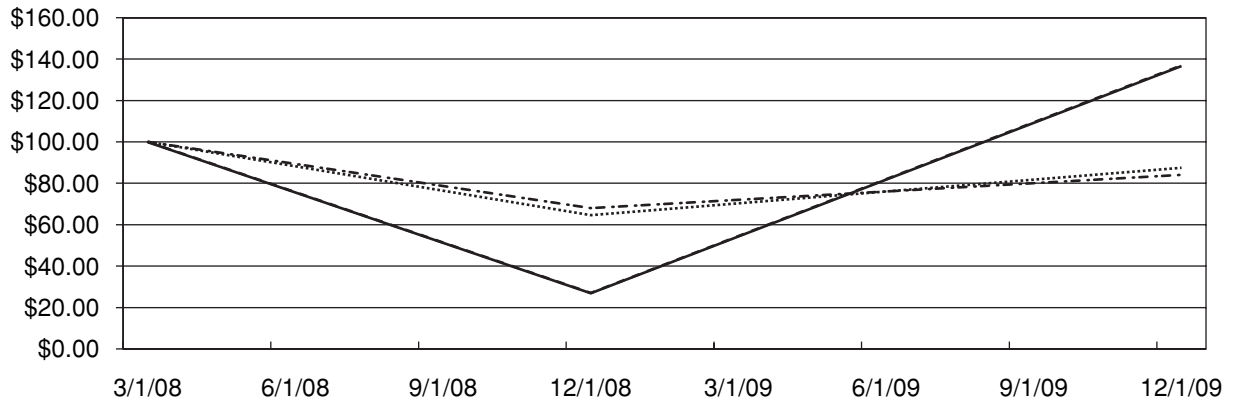
Liberty Capital Common Stock vs. S&P Media and 500 Indices
3/4/08 to 12/31/09



	<u>3/4/08</u>	<u>12/31/08</u>	<u>12/31/09</u>
Liberty Capital Series A	\$100.00	\$26.98	\$136.77
Liberty Capital Series B	\$100.00	\$27.03	\$136.98
S&P Media Index	\$100.00	\$64.67	\$ 87.46
S&P 500 Index	\$100.00	\$68.08	\$ 84.05

The following graph compares the percentage change in the cumulative total shareholder return on the Liberty Entertainment Series A and B tracking stocks from March 4, 2008 through November 19, 2009, in comparison to the S&P Media Index and the S&P 500 Index.

Liberty Entertainment Common Stock vs. S&P Media and 500 Indices
3/4/08 to 11/19/09



	<u>3/4/08</u>	<u>12/31/08</u>	<u>11/19/09</u>
Liberty Entertainment Series A	\$100.00	\$69.92	\$143.64
Liberty Entertainment Series B	\$100.00	\$68.33	\$142.19
S&P Media Index	\$100.00	\$64.67	\$ 82.85
S&P 500 Index	\$100.00	\$68.08	\$ 82.52

LIBERTY MEDIA CORPORATION
INVESTMENT SUMMARY
(As of March 31, 2010)

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

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

LIBERTY CAPITAL

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
AOL, Inc. (NYSE: AOL)	AOL, Inc. (AOL) is a 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.	3%
Atlanta National League Baseball Club, Inc.	Owner of the Atlanta Braves, a major league baseball club, as well as certain of the Atlanta Braves' minor league clubs.	100%
CenturyLink, Inc. (NYSE: CTL)	Leading provider of high-quality voice, broadband and video services over its advanced communications networks to consumers and businesses in 33 states.	2%
Current Group, LLC	Provider of Broadband over Powerline (BPL) solutions and services to electric distribution companies.	8% ⁽¹⁾
Hallmark Entertainment Investments Co.	Owner of controlling interest in Crown Media Holdings, Inc., the owner and operator of U.S. cable television channels, including the Hallmark Channel.	11% ⁽²⁾

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
Jingle Networks, Inc.	Operator of the advertiser-supported 1.800.FREE411 service which allows callers to obtain residential, business and government telephone numbers for no charge.	9% ⁽³⁾
Kroenke Arena Company, LLC	Owner of the Pepsi Center, a sports and entertainment facility in Denver, Colorado.	6.5%
Leisure Arts, Inc.	Publisher and marketer of needlework, craft, decorating, entertaining and other lifestyle interest “how-to” books.	100%
Live Nation (NYSE: LYV)	Live Nation Entertainment is the largest live entertainment company in the world, consisting of five businesses: concert promotion and venue operations, sponsorship, ticketing solutions, e-commerce and artist management.	14%
MacNeil/Lehrer Productions	Producer of <i>The NewsHour with Jim Lehrer</i> in addition to documentaries, web sites, interactive DVD’s, civic engagement projects and educational programs.	67%
Mobile Streams (LSE: MOS)	Mobile Streams is a global mobile content retailer that retails a range of wide range of mobile content including full-track downloads, truetones, polyphonic ringtones, videos, graphics and games.	16%
Motorola, Inc. (NYSE: MOT)	Provider of integrated communications solutions and embedded electronic solutions.	2%
Overture Films, LLC	A fully-integrated studio that produces, acquires, markets, and distributes theatrical motion pictures worldwide.	100%
priceline.com, Incorporated (NASDAQ: PCLN)	An online travel company, which offers a range of travel services, including hotel rooms, car rentals, airline tickets, vacation packages, cruises and destination services.	1%

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
SIRIUS XM (NASDAQ: SIRI)	SIRIUS XM Radio is America's satellite radio company delivering commercial-free music channels, premier sports, news, talk, entertainment, traffic and weather, to more than 18.9 million subscribers.	40%
Sprint Nextel Corporation (NYSE: S)	Provider of a comprehensive range of communications services bringing mobility to consumer, business and government customers.	2% ⁽⁴⁾
Starz Media, LLC (formerly IDT Entertainment)	Creator and distributor of animated and live-action programming, creator of content under contract for other media companies, and leading independent home video/DVD entertainment company.	100%
Time Warner Cable Inc. (NYSE: TWC)	TWC is the second-largest cable operator in the U.S. and offers residential and commercial video, high-speed data and voice services over its broadband cable systems.	2%
Time Warner Inc. (NYSE: TWX)	Media and entertainment company whose businesses include filmed entertainment, interactive services, television networks, cable systems, music and publishing.	3%
TruePosition, Inc.	Developer and implementer of advanced wireless location products, services and devices in a cross-carrier environment, including potential for use in connection with social networks, mobile gaming companies, search companies, mobile advertisers and providers of music, comedy and entertainment content to wireless devices.	100%

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
Viacom Inc. (NYSE: VIA)	Global media company, with positions in cable television, motion picture, Internet, mobile and video game platforms. Brands include MTV, Nickelodeon, Nick at Nite, VH1, BET, Paramount Pictures, TV Land, Comedy Central, CMT: Country Music Television and Spike TV.	1%
WFRV and WJMN Television Station, Inc.	CBS broadcast affiliate that serves Green Bay, Wisconsin and Escanaba, Michigan.	100%
Zoombak LLC	Zoombak LLC develops and markets advanced personal location products and technologies that keep people connected to the people and things that really matter.	100%

LIBERTY STARZ

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
Liberty Sports Interactive, Inc.	Provider of free online games, information and entertainment for sports fans.	100%
Starz Entertainment, LLC	Provider of video programming distributed by cable operators, direct-to-home satellite providers, other distributors and via the Internet throughout the United States.	100%

LIBERTY INTERACTIVE

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
Backcountry.com, Inc.	eCommerce business that sells performance gear for backcountry adventures, including backpacking, climbing, skiing, snowboarding, trail running and adventure travel. Backcountry.com also operates BackcountryOutlet.com, Dogfunk.com, Tramdock.com, SteepandCheap.com and WhiskeyMilitia.com.	81%
Bodybuilding.com	eCommerce business that sells supplements, clothing, tanning supplies, accessories and other bodybuilding products as well as hosts an online site where visitors can network and exchange information related to bodybuilding.	83%
Borba, LLC	Provider of full range of nutraceutical and cosmeceutical products.	25%
BUYSEASONS, Inc.	Online retailers of costumes, accessories, seasonal décor and party supplies. BUYSEASONS, Inc. also operates BuyCostumes.com and CelebrateExpress.com.	100%
Expedia, Inc. (NASDAQ: EXPE)	Empowers business and leisure travelers with the tools and information needed to research, plan, book and experience travel. It also provides wholesale travel to offline retail travel agents. Expedia's main companies include: Expedia.com, Hotels.com, Hotwire, Expedia Corporate Travel, TripAdvisor and Classic Vacations. Expedia's companies operate internationally in Canada, the UK, Germany, France, Italy, the Netherlands and China.	24% ⁽⁵⁾
HSN, Inc. (NASDAQ: HSN)	A retailer and interactive lifestyle network offering and assortment of products through television home shopping programming on HSN television network and HSN.com.	33%

ENTITY	DESCRIPTION OF OPERATING BUSINESS	ATTRIBUTED OWNERSHIP
IAC/InteractiveCorp (NASDAQ: IACI)	Operator of businesses in sectors being transformed by the internet, online and offline. Comprised of Ask, Match.com, Chemistry.com, Citysearch, ServiceMagic, CollegeHumor, Evite, Pronto.com, Gifts.com, GirlSense, IAC Advertising Solutions, Life123, RushmoreDrive.com, ShoeBuy.com, The Daily Beast, Very Short List, Vimeo, Webfetti, and Zwinky.	11% ⁽⁶⁾
Interval Leisure Group, Inc. (NASDAQ: IILG)	Provider of membership services to the vacation ownership industry.	29%
LOCKERZ	Aims to be the destination for generation Z where commerce, content, and community converge.	65%
Provide Commerce, Inc.	eCommerce marketplace company providing a collection of branded websites each offering high quality, perishable products shipped directly from the supplier to the consumer and designed specifically around the way consumers shop. Comprised of Cherry Moon Farms, ProFlowers, 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 networks and via the Internet through its domestic and international websites.	100%
The Right Start	eCommerce and traditional retailer of premium baby gear and products that offer parents a carefully selected assortment of the best products for their babies including travel gear, feeding, décor and toys.	100%
Tree.com (Lending Tree) (NASDAQ: TREE)	An online lending and real estate business which matches consumers with lenders and loan brokers.	25%

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- (1) Liberty Media owns interests in Current Group, LLC through two different partnerships, Liberty Associated Partners and Associated Partners.
 - (2) Liberty Media has an approximate indirect 9% economic ownership in Crown Media Holdings, Inc. (NASDAQ: CRWN) through its investment in Hallmark Entertainment Investments Co.
 - (3) Liberty Media owns interests in Jingle Networks, Inc. through two different partnerships, Liberty Associated Partners and Associated Partners.
 - (4) Less than 1% of voting power. Liberty Media beneficially owns shares of Sprint Nextel common stock and instruments convertible into Sprint Nextel common stock.
 - (5) Liberty Media owns approximately 24% of Expedia common stock representing an approximate 58% voting interest; however, the Chairman and CEO of Expedia currently has the authority to vote these shares.
 - (6) Liberty Media owns approximately 11% of IAC common stock representing an approximate 55% voting interest; however, the Chairman and CEO of IAC currently has the authority to vote these shares.

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

Market Information

We have three tracking stocks outstanding as of December 31, 2009. Our Series A and Series B Liberty Interactive tracking stock (LINTA and LINTB) have been outstanding since May 2006. Our Series A and Series B Liberty Capital tracking stock (LCAPA and LCAPB) and our Series A and Series B Liberty Starz tracking stock (formerly Liberty Entertainment tracking stock) (LSTZA and LSTZB, formerly LMDIA and LMDIB) have been outstanding since March 4, 2008 when each share of our previous Liberty Capital tracking stock was reclassified into one share of the same series of new Liberty Capital and four shares of the same series of Liberty Entertainment. On November 19, 2009, we completed the split off (the “Split-Off”) of our subsidiary Liberty Entertainment, Inc. (“LEI”). The 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 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, 2009 and 2008.

	Liberty Capital			
	Series A (LCAPA)		Series B (LCAPB)	
	High	Low	High	Low
<i>2008</i>				
First quarter (thru March 3)	\$119.75	100.00	121.21	101.25
First quarter (beginning March 4)	\$ 19.25	14.60	17.73	14.64
Second quarter	\$ 16.99	14.03	18.00	14.07
Third quarter	\$ 16.46	13.10	16.23	12.97
Fourth quarter	\$ 13.74	2.33	13.75	2.61
<i>2009</i>				
First quarter	\$ 7.46	4.35	10.60	4.46
Second quarter	\$ 15.42	6.61	15.98	6.30
Third quarter	\$ 23.52	11.04	23.68	12.46
Fourth quarter	\$ 25.05	20.35	25.01	20.46
	Liberty Interactive			
	Series A (LINTA)		Series B (LINTB)	
	High	Low	High	Low
<i>2008</i>				
First quarter	\$19.17	13.42	18.69	13.53
Second quarter	\$17.58	14.55	17.44	14.73
Third quarter	\$15.17	11.52	15.91	11.95
Fourth quarter	\$13.10	1.97	12.79	2.10
<i>2009</i>				
First quarter	\$ 3.99	2.42	3.81	1.75
Second quarter	\$ 7.34	2.83	7.27	2.89
Third quarter	\$11.48	4.53	11.40	4.31
Fourth quarter	\$12.81	9.82	12.79	10.23

	Liberty Starz			
	Series A (LSTZA)		Series B (LSTZB)	
	High	Low	High	Low
<i>2008</i>				
First quarter (beginning March 4)	\$27.07	19.65	26.51	20.46
Second quarter	\$27.48	22.12	27.41	22.46
Third quarter	\$28.64	22.33	28.95	22.48
Fourth quarter	\$25.26	9.47	24.95	9.69
<i>2009</i>				
First quarter	\$20.94	16.03	20.10	15.25
Second quarter	\$27.07	19.54	27.23	19.58
Third quarter	\$31.38	24.68	31.11	24.43
Fourth quarter (thru November 19)	\$36.26	29.86	36.10	30.01
Fourth quarter (beginning November 20)	\$51.50	46.10	50.34	46.86

Holders

As of January 31, 2009, there were approximately 2,150 and 100 record holders of our Series A and Series B Liberty Capital common stock, respectively, approximately 2,900 and 100 record holders of our Series A and Series B Liberty Interactive common stock, respectively, and approximately 1,800 and 100 record holders of our Series A and Series B Liberty Starz common stock, respectively. The foregoing numbers of record holders do not include the number of stockholders whose shares are held of record by banks, brokerage houses or other institutions, but include each such institution as one shareholder.

Dividends

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

Securities Authorized for Issuance Under Equity Compensation Plans

Information required by this item is incorporated by reference to our definitive proxy statement for our 2010 Annual Meeting of stockholders.

Purchases of Equity Securities by the Issuer

Period	Series A Liberty Capital Common Stock			
	(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, 2009	—	N/A	—	\$118.8 million
November 1-30, 2009	—	N/A	—	\$118.8 million
December 1-31, 2009	<u>82,233</u>	\$22.94	<u>82,233</u>	\$116.9 million
Total	<u>82,233</u>		<u>82,233</u>	

In connection with the reclassification of old Liberty Capital Group stock into Entertainment Group stock and Capital Group stock, our board of directors approved a program to repurchase up to

\$300 million of Liberty Capital common stock. In August 2008, our board of directors approved an additional \$300 million of Liberty Capital common stock repurchases. We may alter or terminate the program at any time.

Series A Liberty Starz 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, 2009	—	N/A	—	\$500.0 million
November 1-30, 2009	—	N/A	—	\$500.0 million
December 1-31, 2009	272,420	\$48.61	272,420	\$486.7 million
Total	<u>272,420</u>		<u>272,420</u>	

In connection with the Split-Off and the re-naming of the Starz Group, our board of directors approved a program to repurchase up to \$500 million of Liberty Starz common stock. We may alter or terminate the program at any time.

In addition to the shares listed in the table above, 7,036 shares of Series A Liberty Capital common stock, 17,085 shares of Series A Liberty Interactive common stock and 3,072 shares of Series A Liberty Starz common stock were surrendered in the fourth quarter of 2009 by certain of our officers to pay withholding taxes in connection with the vesting of their restricted stock.

Selected Financial Data.

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

	December 31,				
	2009	2008	2007	2006	2005
	amounts in millions				
<i>Summary Balance Sheet Data:</i>					
Cash	\$ 4,835	3,060	3,128	3,098	1,896
Investments in available-for-sale securities and other cost investments	\$ 4,120	2,857	6,920	10,462	10,318
Investment in affiliates	\$ 1,030	1,136	1,568	1,589	1,653
Assets of discontinued operations	\$ —	14,211	11,050	12,012	8,961
Total assets	\$28,631	41,903	45,649	47,638	41,965
Long-term debt(1)	\$ 7,842	9,630	11,524	8,909	6,370
Deferred income tax liabilities, noncurrent	\$ 2,675	3,143	5,033	6,071	6,252
Equity	\$10,238	19,757	20,452	21,923	19,410

	Years ended December 31,				
	2009	2008	2007	2006	2005
amounts in millions, except per share amounts					
<i>Summary Statement of Operations Data:</i>					
Revenue	\$10,158	9,817	9,378	8,592	7,646
Operating income (loss)(2)	\$ 1,050	(758)	758	1,158	945
Realized and unrealized gains (losses) on financial instruments, net	\$ (155)	(260)	1,269	(279)	257
Gains (losses) on dispositions, net	\$ 284	15	646	607	(361)
Other than temporary declines in fair value of investments . .	\$ (9)	(441)	(33)	(4)	(97)
Earnings (loss) from continuing operations(2)(3):					
Liberty Capital common stock	\$ 127	(526)	—	—	—
Liberty Starz common stock	213	(967)	—	—	—
Liberty Interactive common stock	297	(737)	470	521	—
Old Liberty Capital common stock	—	(59)	1,489	125	—
Liberty common stock	—	—	—	178	126
	<u>\$ 637</u>	<u>(2,289)</u>	<u>1,959</u>	<u>824</u>	<u>126</u>
Basic earnings (loss) from continuing operations attributable to Liberty Media Corporation stockholders per common share(4):					
Series A and Series B Liberty Capital common stock	\$ 1.32	(4.65)	—	—	—
Series A and Series B Liberty Starz common stock	\$.46	(1.87)	—	—	—
Series A and Series B Liberty Interactive common stock . .	\$.43	(1.31)	.70	.73	—
Old Series A and Series B Liberty Capital common stock . .	\$ —	(.46)	11.19	.91	—
Liberty common stock	\$ —	—	—	.06	.03
Diluted earnings (loss) from continuing operations attributable to Liberty Media Corporation stockholders per common share(4):					
Series A and Series B Liberty Capital common stock	\$ 1.31	(4.65)	—	—	—
Series A and Series B Liberty Starz common stock	\$.46	(1.87)	—	—	—
Series A and Series B Liberty Interactive common stock . .	\$.43	(1.31)	.69	.73	—
Old Series A and Series B Liberty Capital common stock . .	\$ —	(.46)	11.11	.91	—
Liberty common stock	\$ —	—	—	.06	.03

- (1) Excludes the call option portion of our exchangeable debentures for periods prior to January 1, 2007.
- (2) Includes \$1,569 million of long-lived asset impairment charges in 2008.
- (3) Includes earnings from continuing operations attributable to the noncontrolling interests of \$39 million, \$44 million, \$41 million, \$33 million and \$51 million for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively.
- (4) 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. Basic and diluted EPS have been calculated for Liberty Interactive common stock for the periods subsequent to May 9, 2006. Basic and diluted EPS have been calculated for old Liberty Capital for the period from May 9, 2006 to March 3, 2008. EPS has been calculated for Liberty common stock for all periods prior to May 10, 2006.

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

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying consolidated financial statements and the notes thereto.

Overview

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

Our "Corporate and Other" category includes our other consolidated subsidiaries and corporate expenses. Our other consolidated subsidiaries include Provide Commerce, Inc., Backcountry.com, Inc., Bodybuilding.com, LLC, Starz Media, LLC, Atlanta National League Baseball Club, Inc. ("ANLBC"), TruePosition, Inc. and BuySeasons, Inc. Provide operates an e-commerce marketplace of websites for perishable goods, including flowers and fruits and desserts, as well as upscale personalized gifts. Backcountry operates websites offering outdoor and backcountry sports gear and clothing. Bodybuilding manages websites related to sports nutrition, bodybuilding and fitness. Starz Media develops, acquires, produces and distributes live-action and animated films and television productions for the theatrical, home video, television and other ancillary markets in the United States and internationally. ANLBC owns the Atlanta Braves, a major league baseball club, as well as certain of the Atlanta Braves' minor league clubs. TruePosition provides equipment and technology that deliver location-based services to wireless users. BuySeasons operates websites that offer costumes, accessories, décor and party supplies.

In addition to the foregoing businesses, we hold ownership interests in Sirius XM Radio Inc. ("SIRIUS XM") and Expedia, Inc., which we account for as equity method investments, and we continue to maintain investments and related financial instruments in public companies such as Time Warner, Time Warner Cable, IAC/InterActiveCorp ("IAC") and Sprint Nextel Corporation, which are accounted for at their respective fair market values and are included in corporate and other.

Tracking Stocks

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

On November 19, 2009, we completed our previously announced split-off (the "Split-Off") of our wholly owned subsidiary, Liberty Entertainment, Inc. ("LEI"), and the business combination transaction among our company, LEI and The DIRECTV Group, Inc. ("DIRECTV") (the "DTV Business Combination"). The Split-Off was accomplished by a partial 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, pursuant to which, 0.9 of each outstanding share of Liberty Entertainment common stock was redeemed for 0.9 of a share of the corresponding series of common stock of LEI, with payment of cash in lieu of any fractional shares. LEI held our 57% interest in DIRECTV, 100%

interest in 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 our company and continue to be attributed to the Entertainment Group, which we have redesignated as the Starz Group.

Immediately following the Split-Off, we, LEI and DIRECTV completed the DTV Business Combination, and each of LEI and DIRECTV became wholly owned subsidiaries of a new public holding company named DIRECTV (“Holdings”). 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 1.11130 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 1.11130 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 Split-Off was conditioned on, among other matters, satisfaction and waiver of all conditions to the DTV Business Combination, the Split-Off and the DTV Business Combination have been recorded at fair value, and we recognized an approximate \$5.9 billion gain on the transaction. Such gain is included in earnings from discontinued operations in our accompanying consolidated statement of operations.

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

The term “Interactive Group” does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which we have attributed to it. As of December 31, 2009, the assets and businesses we have attributed to the Interactive Group are those engaged in video and on-line commerce, and include our subsidiaries QVC, Provide, Backcountry, Bodybuilding and BuySeasons and our interests in Expedia, HSN, Inc., Interval Leisure Group, Inc., Ticketmaster Entertainment, Inc., Tree.com, Inc. and IAC. In addition, we have attributed \$2,135 million principal amount (as of December 31, 2009) of our public debt to the Interactive Group. The Interactive Group will also include such other businesses that our board of directors may in the future determine to attribute to the Interactive Group, including such other businesses as we may acquire for the Interactive Group.

Similarly, the term “Starz Group” does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which we have attributed to it. The Starz Group is comprised primarily of our subsidiary Starz Entertainment and approximately \$542 million of corporate cash (as of December 31, 2009).

The term “Capital Group” also does not represent a separate legal entity, rather it represents all of our businesses, assets and liabilities which we have attributed to it. The Capital Group has attributed to it all of our businesses, assets and liabilities not attributed to the Interactive Group or the Starz Group, including our subsidiaries Starz Media, ANLBC and TruePosition, and our investments in SIRIUS XM, Time Warner Inc., Time Warner Cable and Sprint Nextel Corporation. In addition, we have attributed \$3,157 million of cash, including subsidiary cash and \$4,149 million principal amount (as

of December 31, 2009) of our exchangeable senior debentures and other parent debt to the Capital Group. The Capital Group will also include such other businesses that our board of directors may in the future determine to attribute to the Capital Group, including such other businesses as we may acquire for the Capital Group.

On February 25, 2010, we announced that our board of directors had resolved to effect the following changes in attribution between the Capital Group and the Interactive Group, effective immediately (the “Reattribution”):

- the change in attribution from the Interactive Group to the Capital Group of our 14.6% ownership interest in Live Nation Entertainment, Inc.;
- the change in attribution from the Capital Group to the Interactive Group of the following debt securities:
 - \$469 million in principal amount of 4% Exchangeable Senior Debentures due 2029 (the “2029 Exchangeables”);
 - \$460 million in principal amount of 3.75% Exchangeable Senior Debentures due 2030 (the “2030 Exchangeables”); and
 - \$492 million in principal amount of 3.5% Exchangeable Senior Debentures due 2031 (the “2031 Exchangeables”, and together with the 2029 Exchangeables and the 2030 Exchangeables, the “Exchangeable Notes”);
- the change in attribution from the Capital Group to the Interactive Group of approximately \$830 million in net taxable income to be recognized ratably in tax years 2014 through 2018 as a result of the cancellation in April 2009 of \$400 million in face amount of 2029 Exchangeables and \$350 million in face amount of 2030 Exchangeables; and
- the change in attribution from the Capital Group to the Interactive Group of \$807 million in cash.

We will account for the Reattribution prospectively. This change in attribution, which is intended to be value neutral, has no effect on the assets and liabilities attributed to the Starz Group.

See page F-98 for unaudited attributed financial information for our tracking stock groups.

2007 Transactions

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

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

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

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

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

Discontinued Operations

In the first and second quarters of 2007, we completed two separate transactions pursuant to which we sold our interests in OpenTV Corp and Ascent Entertainment Group (“AEG”) to unrelated third parties.

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

Strategies and Challenges of Business Units

QVC. QVC continued to face challenging economic conditions in the first half of 2009 that adversely impacted its revenue and Adjusted OIBDA. In the second half of 2009, QVC saw improved economic conditions and operating results. Domestically, in 2009 QVC also realized improved efficiencies and positive results of restructuring and cost cutting measures that were implemented in the fall of 2008. In addition, QVC continued to adjust its product mix, improve its programming, enhance and optimize its website and invest in multi-media opportunities.

In 2009, each of QVC’s international businesses showed improved operating results in local currency, but QVC-UK and QVC-Germany were hurt by a stronger U.S. dollar, while QVC-Japan was helped by a stronger Japanese yen. Efforts by QVC-Germany to diversify its programming and product mix and increase its focus on underperforming product categories by reducing airtime allocations for apparel and jewelry and increasing the mix of beauty and accessories helped to increase revenue and margins. In 2009, QVC-UK increased the sales mix, selling times and frequency of the more successful product lines and implemented various cost saving initiatives. QVC-Japan successfully promoted and grew its product categories other than health and beauty in response to the Japanese government’s heightened regulatory focus on health and beauty products and continues to adjust to its product lines, value perception and category mix to improve its performance.

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 Internet. In 2010, 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 and begin operations in Italy in October 2010.

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 QVC-US store front, or sets, have been updated to provide a fresh, inviting look and feel to create customer interest as well as improved product demonstration capability. The enhanced website will provide improved product search and guided navigation, a second live counter programming show stream and the ability to create micro-sites.

The key challenges facing both the U.S. and international markets are (1) general economic conditions, (2) maintaining favorable channel positioning as digital TV penetration increases, (3) increased competition from other home shopping and Internet retailers, (4) changes in television

viewing habits because of advancements in technology, such as video on demand and personal video recorders and (5) successful management transition.

Starz Entertainment. Starz Entertainment's focus in 2010 will be directed to several initiatives. First, Starz Entertainment will continue to differentiate itself from other pay television programmers by investing in, producing and airing original programming on its Starz Channel. Secondly, Starz Entertainment will work with its affiliates to package its channels in lower tier product offerings to gain wider distribution. Thirdly, Starz Entertainment will continue to explore and invest in additional distribution channels and products, including on demand, high definition, Internet and mobile Internet products. Finally, Starz Entertainment will seek to finalize new long-term affiliation agreements with those affiliates whose agreements are expiring.

Starz Entertainment faces certain challenges in its attempt to meet these goals, including: (1) cable operators' promotion of bundled service offerings rather than premium video services; (2) the impact on viewer habits of new technologies such as Internet capable televisions and blu-ray players; (3) potential consolidation in the broadband and satellite distribution industries; (4) an increasing number of alternative movie and programming sources; (5) loss of subscribers due to economic conditions and (6) the launch of Epix, a new pay television service owned by three Hollywood movie studios.

Results of Operations

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

Consolidated Operating Results

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
<i>Revenue</i>			
Interactive Group			
QVC	\$ 7,374	7,303	7,397
Corporate and other	931	776	405
	<u>8,305</u>	<u>8,079</u>	<u>7,802</u>
Starz Group			
Starz Entertainment	1,193	1,111	1,066
Corporate and other	11	13	25
	<u>1,204</u>	<u>1,124</u>	<u>1,091</u>
Capital Group			
Starz Media	364	321	254
Corporate and other	285	293	231
	<u>649</u>	<u>614</u>	<u>485</u>
Consolidated Liberty	<u>\$10,158</u>	<u>9,817</u>	<u>9,378</u>
<i>Adjusted OIBDA</i>			
Interactive Group			
QVC	\$ 1,565	1,502	1,652
Corporate and other	89	53	32
	<u>1,654</u>	<u>1,555</u>	<u>1,684</u>
Starz Group			
Starz Entertainment	384	301	264
Corporate and other	(10)	(11)	(5)
	<u>374</u>	<u>290</u>	<u>259</u>
Capital Group			
Starz Media	(93)	(189)	(143)
Corporate and other	(82)	(108)	(67)
	<u>(175)</u>	<u>(297)</u>	<u>(210)</u>
Consolidated Liberty	<u>\$ 1,853</u>	<u>1,548</u>	<u>1,733</u>
<i>Operating Income (Loss)</i>			
Interactive Group			
QVC	\$ 1,019	956	1,114
Corporate and other	22	(50)	(1)
	<u>1,041</u>	<u>906</u>	<u>1,113</u>
Starz Group			
Starz Entertainment	330	(975)	210
Corporate and other	(58)	(38)	(59)
	<u>272</u>	<u>(1,013)</u>	<u>151</u>
Capital Group			
Starz Media	(100)	(395)	(342)
Corporate and other	(163)	(256)	(164)
	<u>(263)</u>	<u>(651)</u>	<u>(506)</u>
Consolidated Liberty	<u>\$ 1,050</u>	<u>(758)</u>	<u>758</u>

Revenue. Our consolidated revenue increased 3.5% in 2009 and 4.7% in 2008, as compared to the corresponding prior year. The increase in 2009 is due to increases for most of our subsidiaries including our e-commerce businesses (\$155 million), Starz Entertainment (\$82 million) and QVC (\$71 million). The 2008 revenue increase is due to a full year of operations for subsidiaries acquired in 2007 (\$291 million increase) and 2008 acquisitions (\$59 million), as well as increases for Starz Media and Starz Entertainment, partially offset by a decrease for QVC. See Management's Discussion and Analysis for the Interactive Group and the Starz Group below for a more complete discussion of QVC's and Starz Entertainment's results of operations.

In November 2006, TruePosition signed an amendment to its existing services contract with AT&T Corp. that requires TruePosition to develop and deliver additional software features. Because TruePosition did not meet generally accepted accounting principles requirements for revenue recognition, TruePosition was required to defer revenue recognition until all contracted items had been delivered. TruePosition is currently evaluating recently issued accounting standards and believes that based on these new rules it may be able to recognize revenue from this contract in 2010. It is expected that accounting for TruePosition's services contract with its other major customer, T-Mobile, Inc., will be similar. It should be noted that both AT&T and T-Mobile are paying currently for services they receive and that the aforementioned deferrals have normal gross profit margins included.

Adjusted OIBDA. We define Adjusted OIBDA as revenue less cost of sales, operating expenses and selling, general and administrative ("SG&A") expenses (excluding stock compensation). Our chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock compensation, separately disclosed litigation settlements and impairments of long-lived assets that are included in the measurement of operating income pursuant to generally accepted accounting principles ("GAAP"). Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 20 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 \$305 million or 19.7% and decreased \$185 million or 10.7% in 2009 and 2008, respectively, as compared to the corresponding prior year. The 2009 increase is due primarily to improvements for Starz Media, Starz Entertainment, QVC and our e-commerce companies. The decrease in 2008 is due primarily to QVC, as increases and decreases for our other subsidiaries largely offset each other. Starz Media's Adjusted OIBDA loss decreased in 2009 and increased in 2008 primarily due to the timing of revenue and expenses associated with films released by Overture Films and Starz Animation in 2009 and 2008. Partially offsetting the increased losses in 2008 was a \$53 million decrease in capitalized production cost write-offs. Theatrical print costs and advertising expenses related to the release of a film are recognized at the time the advertisements are run and generally exceed the theatrical revenue earned from the film. In addition, amortization of film production costs begins when revenue recognition begins. Although there can be no assurance, the expectation when films are approved for production or acquisition is that the ultimate revenue to be earned from theatrical release, home video and pay-per-view and premium television distribution, which revenue may be earned over several years, will exceed the costs associated with the film.

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 \$128 million, \$49 million and \$89 million of stock compensation expense for the years ended December 31, 2009, 2008, and 2007, respectively. The fluctuations in stock compensation expense in 2009 and 2008 relate to our SARs and Starz Entertainment’s PSAR plans and are due to changes in our stock prices and the value of Starz Entertainment and to the vesting of Starz Entertainment PSARs. As of December 31, 2009, the total unrecognized compensation cost related to unvested Liberty equity awards was approximately \$143 million. Such amount will be recognized in our consolidated statements of operations over a weighted average period of approximately 2.6 years.

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.

Impairment of long-lived assets. No significant impairments were required in 2009.

In December 2008, we performed our annual evaluation of the recoverability of our goodwill and other indefinite lived intangible assets. We compared the estimated fair value of each reporting unit to its carrying value, including goodwill (the “Step 1 Test”). In our Step 1 Test, we estimated the fair value of each of our reporting units using a combination of discounted cash flows and market-based valuation methodologies. Developing estimates of fair value requires significant judgments, including making assumptions about appropriate discount rates, perpetual growth rates, relevant comparable market multiples and the amount and timing of expected future cash flows. The cash flows employed in our valuation analysis were based on management’s best estimates considering current marketplace factors and risks as well as assumptions of growth rates in future years. There is no assurance that actual results in the future will approximate these forecasts. For those reporting units whose estimated fair value exceeded the carrying value, no further testwork was required and no impairment was recorded. For those reporting units whose carrying value exceeded the fair value, a second test was required to measure the impairment loss (the “Step 2 Test”). In the Step 2 Test, the fair value of the reporting unit was allocated to all of the assets and liabilities of the reporting unit with any residual value being allocated to goodwill. The difference between such allocated amount and the carrying value of the goodwill was recorded as an impairment charge. In connection with our analysis, we recorded the following impairment charges (amounts in millions):

Starz Entertainment	\$1,239
Starz Media	192
Other	138
	<u>\$1,569</u>

We believe that the foregoing impairment charges, which also include \$29 million of impairments of intangible assets other than goodwill, were due in large part to the 2008 economic crisis and the downward impact it had on perceptions of future growth prospects and valuation multiples for our reporting units.

While Starz Entertainment had increasing revenue and Adjusted OIBDA in recent years, it failed the Step 1 Test due to the aforementioned lower future growth expectations and the compression of market multiples. In performing the Step 2 Test, Starz Entertainment allocated a significant portion of its estimated fair value to amortizable intangibles such as affiliation agreements and trade names which have little or no carrying value. The resulting residual goodwill was significantly less than its carrying value. Accordingly, Starz Entertainment recorded an impairment charge. The impairment loss for Starz

Media is due primarily to a lowered long-term forecast for its home video distribution reporting unit resulting from the current economic conditions.

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

Operating income. We generated consolidated operating income of \$1,050 million and \$758 million in 2009 and 2007, respectively, and a consolidated operating loss of \$758 million in 2008. The operating loss in 2008 is largely due to the \$1,569 million of impairment charges discussed above.

Other Income and Expense

Components of Other Income (Expense) are presented in the table below: The attribution of these items to our tracking stock groups assumes the Reclassification had occurred as of January 1, 2007.

	Years ended December 31,		
	2009	2008	2007
	amounts in millions		
Interest expense			
Interactive Group	\$(496)	(473)	(465)
Starz Group	(2)	(22)	(25)
Capital Group	(130)	(172)	(151)
Consolidated Liberty	<u>\$(628)</u>	<u>(667)</u>	<u>(641)</u>
Dividend and interest income			
Interactive Group	\$ 8	22	44
Starz Group	2	16	3
Capital Group	115	136	217
Consolidated Liberty	<u>\$ 125</u>	<u>174</u>	<u>264</u>
Share of earnings (losses) of affiliates			
Interactive Group	\$ (14)	(1,192)	77
Starz Group	(10)	(7)	—
Capital Group	(34)	(64)	(68)
Consolidated Liberty	<u>\$ (58)</u>	<u>(1,263)</u>	<u>9</u>
Realized and unrealized gains (losses) on financial instruments, net			
Interactive Group	\$(121)	(240)	(6)
Starz Group	8	272	14
Capital Group	(42)	(292)	1,261
Consolidated Liberty	<u>\$(155)</u>	<u>(260)</u>	<u>1,269</u>
Gains (losses) on dispositions, net			
Interactive Group	\$ 42	2	12
Starz Group	27	(3)	(1)
Capital Group	215	16	635
Consolidated Liberty	<u>\$ 284</u>	<u>15</u>	<u>646</u>
Other than temporary declines in fair value of investments			
Interactive Group	\$ —	(440)	—
Starz Group	—	—	—
Capital Group	(9)	(1)	(33)
Consolidated Liberty	<u>\$ (9)</u>	<u>(441)</u>	<u>(33)</u>
Other, net			
Interactive Group	\$ 7	177	1
Starz Group	(6)	(12)	1
Capital Group	11	4	(2)
Consolidated Liberty	<u>\$ 12</u>	<u>169</u>	<u>—</u>

Interest expense. Consolidated interest expense decreased 5.8% and increased 4.1% for the years ended December 31, 2009 and 2008, respectively, as compared to the corresponding prior year. The

decrease in 2009 is due to retirements of Liberty public debt, partially offset by higher interest rates on the QVC debt. Interest expense increased in 2008 primarily due to an increase in borrowings (i) under the QVC credit facilities (Interactive Group) and (ii) against certain derivative positions (Capital Group).

Dividend and interest income. Interest income decreased in 2009 and 2008 primarily due to lower invested cash balances and lower interest rates.

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

	Years ended December 31,		
	2009	2008	2007
	amounts in millions		
Interactive Group			
Expedia	\$ 72	(726)	68
Other	(86)	(466)	9
Starz Group			
Other	(10)	(7)	—
Capital Group			
SIRIUS XM	(28)	—	—
Other	(6)	(64)	(68)
	<u>\$(58)</u>	<u>(1,263)</u>	<u>9</u>

Our share of earnings of Expedia increased in 2009 due to impairment charges recorded by Expedia in the fourth quarter of 2008. In response to the impairment charges taken by Expedia, we wrote off our excess basis in Expedia in the amount of \$119 million. Such charge is included in our 2008 share of losses of Expedia. Our 2008 share of losses for the Interactive Group also includes other than temporary impairment charges of \$136 million related to Interval, \$242 million related to Ticketmaster and \$85 million related to HSN. Subsequent to December 31, 2009, Ticketmaster completed a merger with a subsidiary of Live Nation, Inc., and Live Nation, Inc. was renamed Live Nation Entertainment, Inc. (“Live Nation”). Upon completion of the merger, we held an approximate 14.6% ownership interest in Live Nation. Subsequent to the merger we launched a tender offer for up to 34,200,000 or approximately 20.3% of the outstanding common shares of Live Nation for \$12.00 per share. Such tender offer is scheduled to expire on March 2, 2010.

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,		
	2009	2008	2007
	amounts in millions		
Non-strategic Securities(1)(4)	\$1,074	(2,882)	—
Exchangeable senior debentures(2)(4)	(856)	1,509	541
Equity collars(4)	(132)	870	527
Borrowed shares(4)	(301)	791	298
Other derivatives(3)	60	(548)	(97)
	<u>\$ (155)</u>	<u>(260)</u>	<u>1,269</u>

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

- (2) See note 3 to the accompanying consolidated financial statements for a discussion of our accounting for our exchangeable senior debentures.
- (3) Other derivative losses in 2008 include losses of \$289 million on debt swap arrangements related to certain of our public debt issuances and losses of \$182 million on put options related to our common stock, as well as losses on interest rate swaps and other derivatives.
- (4) Changes in fair value are due to improvements in the equity and debt markets in 2009 and declines in such markets in 2008 and 2007.

Gains (losses) on dispositions. The Capital Group's 2009 gains from dispositions are due primarily to (i) the sale of our interest in WildBlue Communications Corp. to ViaSat, Inc. (\$128 million) and our transactions with SIRIUS XM (\$85 million). The 2007 gains from dispositions are due primarily to the Time Warner Exchange (\$582 million) and the CBS Exchange (\$31 million).

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

Other than temporary declines in fair value of investments. During 2009, 2008 and 2007, we determined that certain of our cost investments experienced other than temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based primarily on quoted market prices at the date each adjustment was deemed necessary. These adjustments are reflected as other than temporary declines in fair value of investments in our consolidated statements of operations. Our 2008 other than temporary declines for the Interactive Group relate to our investment in IAC.

Income taxes. In 2009 we had pre-tax income of \$621 million and a tax benefit of \$16 million. Our effective tax rate was 24.5% in 2008 and 13.8% in 2007. In 2009, due to the completion of audits with taxing authorities, we recognized previously unrecognized tax benefits of \$201 million. Our 2008 effective tax rate was lower than the U.S. federal income tax rate of 35% due primarily to the impairment of goodwill which is not deductible for income tax purposes. The Time Warner Exchange and the CBS Exchange, which were completed in 2007, qualify as IRC Section 355 transactions, and therefore do not trigger federal or state income tax obligations. In addition, upon consummation of those exchange transactions, deferred tax liabilities previously recorded for the difference between our book and tax bases in our Time Warner and CBS Corporation investments in the amount of \$354 million were reversed with an offset to income tax benefit.

Net earnings. Our net earnings were \$6,501 million, \$3,523 million and \$2,149 million for the years ended December 31, 2009, 2008 and 2007, respectively, and were the result of the above-described fluctuations in our revenue and expenses. In addition, we recognized earnings from discontinued operations of \$5,864 million, \$5,812 million and \$190 million for the years ended December 31, 2009, 2008 and 2007, respectively. Our 2009 earnings from discontinued operations include a \$5,927 million gain that we recognized in connection with the Split-Off and DTV Business Combination. Earnings from discontinued operations in 2008 includes a \$3,665 million gain and a \$1,791 million tax benefit related to our exchange of our News Corporation investment for certain assets and businesses of News Corporation.

Liquidity and Capital Resources

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

As of December 31, 2009, 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 A1/P1 rated commercial paper.

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

Upon completion of our Split-Off of LEI, Standard & Poor's Ratings Services and Moody's Investors Services each lowered their rating on our corporate credit. In the event we need to obtain external debt financing, such downgrades could hurt our ability to obtain financing and could increase the cost of any financing we are able to obtain.

Interactive Group. During the year ended December 31, 2009, the Interactive Group's primary uses of cash were \$2,732 million of debt and intergroup loan repayments and \$208 million of capital expenditures. These uses of cash were funded primarily with \$983 million from the issuance of QVC bonds, \$500 million of intergroup borrowings, \$1,087 million of cash provided by operating activities, which is net of \$168 million of intercompany tax payments to the Capital Group, and \$305 million of cash proceeds from the sale of shares of IAC. As of December 31, 2009, the Interactive Group had a cash balance of \$884 million.

Effective June 16, 2009, QVC amended each of its bank credit agreements. Concurrent with the execution of the amended credit agreements, QVC retired \$750 million of loans at par and cancelled another \$19 million of unfunded commitments at no cost.

Cash used to retire the \$750 million of loans came from a combination of \$250 million in cash from QVC and \$250 million in the form of an intergroup loan from each of the Starz Group and the Capital Group to the Interactive Group. Such intergroup loans (i) are secured by various public stocks attributed to the Interactive Group, (ii) accrue interest quarterly at the rate of LIBOR plus 500 basis points and (iii) are due June 16, 2010. During 2009, the Interactive Group repaid \$97 million of the intergroup loans to each of the Starz Group and the Capital Group.

In connection with the amendment of QVC's bank credit agreements, those lenders consenting to the amendments, which held loans in the aggregate principal amount of approximately \$4.23 billion, received certain modified loan terms, including (i) adjusted interest rate margins of 350 to 550 basis points depending on the tranche maturity, (ii) reductions in QVC's maximum leverage ratio, (iii) additional restrictions on creating additional indebtedness and (iv) mandatory prepayment in the event of certain asset sales by QVC. Loans held by the non-consenting lenders, in the aggregate principal amount of approximately \$252 million, will continue to receive an interest rate margin of up to 100 basis points with their loans maturing in 2011. All other terms of the amended credit agreements will apply to these loans.

During the third quarter of 2009, QVC issued \$1.0 billion principal amount of 7.5% Senior Secured Notes due 2019 at an issue price of 98.278%. QVC used the net proceeds from such offering to fund the purchase and cancellation of outstanding term loans under its amended credit agreements that mature in 2014.

QVC was in compliance with its debt covenants as of December 31, 2009.

Including the impacts of the Reattribution, the projected uses of Interactive Group cash for 2010 include \$438 million for QVC scheduled debt repayments, approximately \$450 million for interest payments on QVC debt and parent debt attributed to the Interactive Group, \$316 million to repay the

remaining intergroup notes, \$275 million for capital expenditures, \$119 million for the repayment of parent derivative debt attributed to the Interactive Group, tax payments to the Capital Group and payments to settle outstanding put options on Liberty Interactive Group common stock. In addition, we may make additional investments in existing or new businesses and attribute such investments to the Interactive Group. However, we do not have any commitments to make new investments at this time.

We expect that the Interactive Group will fund its 2010 cash needs with cash on hand, cash provided by operating activities, cash reattributed from the Capital Group pursuant to the Reattribution and proceeds from the sale of available-for-sale securities. In addition, at December 31, 2009, unused capacity under QVC's bank credit agreements aggregated \$427 million.

Starz Group. As of December 31, 2009, the Starz Group had a cash balance of \$794 million. During the second quarter of 2009, the Starz Group used cash on hand to make a \$250 million intergroup loan to the Interactive Group. In connection with the Split-Off, the Starz Group contributed \$120 million of cash to LEI and received \$226 million from DIRECTV for the repayment of loans previously made to LEI.

The projected uses of Starz Group cash in 2010 include tax payments to the Capital Group, cash payments to settle PSARs held by the founder of Starz Entertainment and repurchases of Liberty Starz common stock. In addition, we may make additional investments in existing or new businesses and attribute such investments to the Starz Group. However, we do not have any significant commitments to make new investments at this time. We expect that we will be able to use a combination of cash on hand and cash from operations to fund Starz Group cash needs in 2010.

Our board of directors has authorized a share repurchase program pursuant to which we can repurchase up to \$500 million of Liberty Starz common stock in the open market or in privately negotiated transactions, subject to market conditions. As of December 31, 2009, we had repurchased \$13 million of Liberty Starz common stock pursuant to this plan. We may alter or terminate the stock repurchase program at any time.

Capital Group. During the second quarter of 2009, we used cash for the voluntary early retirement of \$750 million face amount of our Exchangeable Senior Debentures attributable to Liberty Capital. We paid \$187.5 million (of which \$37.5 million was existing cash collateral) to retire \$400 million face amount of our 4% Exchangeable Senior Debentures due 2029 and \$350 million face amount of our 3¾% Exchangeable Senior Debentures due 2030. We also terminated swap arrangements that reference the 4% and 3¾% Exchangeable Senior Debentures with no additional payment. The total cash used to retire the \$750 million face amount of Exchangeable Senior Debentures and swaps referencing these Exchangeable Senior Debentures was \$503 million, of which \$315 million was paid to settle swap arrangements that were settled in November 2008. We also purchased and retired \$126 million principal amount of our 3.125% Exchangeable Senior Debentures for aggregate cash payments of \$106 million. Other uses of cash by the Capital Group were \$186 million net cash to purchase debt and equity instruments of SIRIUS XM (as more fully described in note 8 to the accompanying condensed consolidated financial statements) and the \$250 million intergroup loan to the Interactive Group.

In addition, we had net borrowings during 2009 of \$213 million against certain of our derivative positions attributed to the Capital Group, bringing our total borrowings against such derivatives to \$838 million as of December 31, 2009. We expect that as these derivatives terminate in 2010, the proceeds due to us upon termination will be substantially offset by our borrowings.

In April 2007, we borrowed \$750 million of bank financing with an interest rate of LIBOR plus an applicable margin. We are investing such proceeds in a portfolio of selected debt instruments of companies in the telecommunications, media and technology sectors that we believe have favorable risk/return profiles. Due to the investment restrictions contained in the agreements related to these

borrowings, the remaining cash balance of \$465 million as of December 31, 2009 is included in other assets in our consolidated balance sheet.

Including the impacts of the Reattribution, the projected uses of Capital Group cash for 2010 include \$807 million to be reattributed to the Interactive Group, \$838 million to repay our derivative loans, approximately \$50 million for interest payments and up to \$410 million to purchase additional shares of Live Nation if our tender offer is fully subscribed. We may also (i) make additional investments in existing or new businesses and attribute such investments to the Capital Group and (ii) make additional repurchases of Liberty Capital common stock pursuant to our stock repurchase program. In addition, we expect to generate taxable income and make related federal tax payments.

We expect that the Capital Group's investing and financing activities will be funded with a combination of cash on hand, tax payments from the Interactive Group and the Starz Group and dispositions of non-strategic assets. At December 31, 2009, the Capital Group's sources of liquidity include \$3,157 million in cash and \$2,558 million of non-strategic AFS securities including related derivatives. To the extent the Capital Group recognizes any taxable gains from the sale of assets or the expiration of derivative instruments, we may incur current tax expense and be required to make tax payments, thereby reducing any cash proceeds attributable to the Capital Group.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Starz Group

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

Starz Entertainment has entered into agreements with a number of motion picture producers which obligate Starz Entertainment to pay fees ("Programming Fees") for the rights to exhibit certain films that are released by these producers. The unpaid balance under agreements for film rights related to films that were available for exhibition by Starz Entertainment at December 31, 2009 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2009 is payable as follows: \$62 million in 2010 and \$7 million in 2011.

Starz Entertainment has also contracted to pay Programming Fees for the rights to exhibit films that have been released theatrically, but are not available for exhibition by Starz Entertainment until some future date. These amounts have not been accrued at December 31, 2009. In addition, Starz Entertainment has agreed to pay Sony Pictures Entertainment ("Sony") (i) a total of \$190 million in four equal annual installments beginning in 2011 for a contract extension through 2013, and (ii) total of \$120 million in three equal annual installments beginning in 2015 for a new output agreement. Starz Entertainment's estimate of amounts payable under these agreements is as follows: \$449 million in 2010; \$125 million in 2011; \$94 million in 2012; \$84 million in 2013; \$67 million in 2014 and \$145 million thereafter.

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

this arrangement, the number of qualifying films under Starz Entertainment's output agreement with Disney may be higher than it would have been otherwise.

Liberty guarantees Starz Entertainment's film licensing obligations under certain of its studio output agreements. At December 31, 2009, Liberty's guarantees for studio output obligations for films released by such date aggregated \$656 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, Starz Entertainment has recognized the liability for a portion of its obligations under the output agreements. As this represents a direct commitment of Starz Entertainment, a consolidated subsidiary of ours, we have not recorded a separate indirect liability for our guarantees of these obligations.

Capital Group

The Atlanta Braves have entered into long-term employment contracts with certain of their players and coaches whereby such individuals' compensation is guaranteed. Amounts due under guaranteed contracts as of December 31, 2009 aggregated \$199 million, which is payable as follows: \$80 million in 2010, \$67 million in 2011, \$50 million in 2012 and \$2 million in 2013. In addition to the foregoing amounts, certain players and coaches may earn incentive compensation under the terms of their employment contracts.

Capital Group, Starz Group and Interactive Group

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. This table has been prepared as of December 31, 2009, and does not reflect any impacts of the Reattribution.

	Payments due by period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
	amounts in millions				
<i>Attributed Starz Group contractual obligations</i>					
Long-term debt(1)	\$ 48	4	8	9	27
Interest payments(2)	18	3	5	5	5
Programming Fees(3)	1,033	511	226	151	145
Operating lease obligations	9	1	2	2	4
Purchase orders and other obligations	8	8	—	—	—
Total Starz Group	<u>1,116</u>	<u>527</u>	<u>241</u>	<u>167</u>	<u>181</u>
<i>Attributed Capital Group contractual obligations</i>					
Long-term debt(1)	4,280	971	759	9	2,541
Interest payments(2)	1,577	100	185	178	1,114
Long-term financial instruments	2	—	2	—	—
Operating lease obligations	87	13	24	21	29
Purchase orders and other obligations	247	128	117	2	—
Total Capital Group	<u>6,193</u>	<u>1,212</u>	<u>1,087</u>	<u>210</u>	<u>3,684</u>
<i>Attributed Interactive Group contractual obligations</i>					
Long-term debt(1)	6,319	561	1,127	2,279	2,352
Interest payments(2)	3,073	400	633	430	1,610
Long-term financial instruments	130	—	130	—	—
Operating lease obligations	132	32	45	26	29
Purchase orders and other obligations	1,065	1,037	28	—	—
Total Interactive Group	<u>10,719</u>	<u>2,030</u>	<u>1,963</u>	<u>2,735</u>	<u>3,991</u>
<i>Consolidated contractual obligations</i>					
Long-term debt(1)	10,647	1,536	1,894	2,297	4,920
Interest payments(2)	4,668	503	823	613	2,729
Programming Fees(3)	1,033	511	226	151	145
Long-term financial instruments	132	—	132	—	—
Operating lease obligations	228	46	71	49	62
Purchase orders and other obligations	1,320	1,173	145	2	—
Total consolidated	<u>\$18,028</u>	<u>3,769</u>	<u>3,291</u>	<u>3,112</u>	<u>7,856</u>

- (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, 2009, (ii) assume the interest rates on our variable rate debt remain constant at the December 31, 2009 rates and (iii) assume that our existing debt is repaid at maturity.

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

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Boards amended the Accounting Standards Codification (“ASC”) as summarized in Accounting Standards Update (“ASU”) 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements*, and ASU 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*. As summarized in ASU 2009-14, ASC Topic 985 has been amended to remove from the scope of industry specific revenue accounting guidance for software and software related transactions, tangible products containing software components and non-software components that function together to deliver the product’s essential functionality. As summarized in ASU 2009-13, ASC Topic 605 has been amended (1) to provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) to require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price; and (3) to eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. The accounting changes summarized in ASU 2009-14 and ASU 2009-13 are effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application.

We are currently assessing the impact that these changes will have on our consolidated financial statements and we are unable to quantify such impact or determine the timing and method of our adoption. As of December 31, 2009, our subsidiary, TruePosition, Inc., had deferred revenue and deferred costs of \$1,037 million and \$434 million, respectively, which we believe will be impacted by the adoption of the new revenue recognition rules. We believe that application of these amendments will result in the revenue and related cost of sales being recognized at the time of sale for the hardware and software portions of bundled arrangements delivered by TruePosition rather than being deferred as is currently the case.

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 our AFS securities. As of December 31, 2009, the carrying value of our AFS securities was \$4,090 million.

Level 2 inputs are inputs, other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. We use the Black-Scholes Model to value many of our financial instruments. The inputs we use for the Black-Scholes Model include market prices of equity securities, volatilities for equity securities, dividend rates and risk free discount rates. We also consider our credit risk and counterparty credit risk in estimating the fair value of our financial instruments. While these inputs are observable, they are not all quoted market prices, so the fair values of our financial instruments fall in Level 2. As of December 31, 2009, the carrying value of our financial instrument assets and liabilities was \$752 million and \$1,134 million, respectively. We use quoted market prices to determine the fair value of our exchangeable senior debentures. However, these debentures are not traded on active markets as defined in GAAP, so these liabilities also fall in Level 2. As of December 31, 2009, the principal amount and carrying value of our exchangeable debentures were \$3,102 million and \$2,254 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 estimated fair value, we are required to write the carrying value down to fair value. Any such writedown is included in impairment of long-lived assets in our consolidated statement of operations. A high degree of judgment is required to estimate the fair value of our long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. In addition, when the equity market capitalization of one of our tracking stock groups is lower than our estimate of the aggregate fair value of the reporting units attributable to such tracking stock group, we reconcile such difference to further support the carrying value of our long-lived assets. Due to the high degree of judgment involved in our estimation techniques, any value ultimately derived from our long-lived assets may differ from our estimate of fair value. As each of our operating segments has long-lived assets, this critical accounting policy affects the financial position and results of operations of each segment.

As of December 31, 2009, the intangible assets not subject to amortization for each of our significant reporting units was as follows:

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Other</u>	<u>Total</u>
	amounts in millions			
QVC	\$5,395	2,428	—	7,823
Starz Entertainment	132	—	—	132
Other	698	80	153	931
Consolidated	<u>\$6,225</u>	<u>2,508</u>	<u>153</u>	<u>8,886</u>

We perform our annual assessment of the recoverability of our goodwill and other nonamortizable intangible assets as of December 31. With respect to QVC, we performed the Step 1 Test using a discounted cash flow analysis prepared as of December 31, 2009. The cash flow projections (the “2009 Cash Flow Projections”) used in our analysis were prepared by QVC management and represent management’s estimate of the future cash flows to be generated by QVC’s operations during 2010 through 2014 (Years 1-5). For the 5 years ended December 31, 2009, QVC’s revenue grew at a compound annual growth rate of approximately 5.3%, including growth of 1.0% in 2009 and a decrease of 1.3% in 2008. Similarly, QVC’s Adjusted OIBDA grew at a compound annual growth rate of approximately 5.1% for the 5 years ended December 31, 2009, including decreases of .2% in 2007 and

9.1% in 2008. Given the improving trends in the economy during 2009, as well as QVC's intention to expand its international operations into new markets, the 2009 Cash Flow Projections include growth rates which are higher than QVC's recent historical growth rates and higher than the growth rates used in the 2008 cash flow projections. The growth rates used in the 2009 Cash Flow Projections are considered by management to be appropriate and reflect the current state of the domestic and world wide economies. The 2009 Cash Flow Projections include many assumptions, including the timing of an economic recovery and the impact of any such recovery on QVC's operations. In this regard, the 2009 Cash Flow Projections are based on the economy continuing to stabilize in 2010 and return to historical levels in the years beyond 2010.

The projected cash flows for QVC's domestic business were discounted using a discount rate of 13.3%. Such rate was derived using a weighted average cost of capital approach and compares to a 12.8% rate that was used in 2008. Such increase in rate reflects a higher risk-free rate and long-horizon expected equity risk premium and factors in the impacts of the recent recession and volatility of business risks. The discount rates for QVC's international businesses were adjusted to reflect the appropriate risk of operating in international regions and were each slightly higher than the discount rates used in 2008 due to the aforementioned factors. Terminal growth rates after Year 5 consider the above noted factors for the initial five years forecasted cash flows and forecasted CPI increases.

We also used a market approach to validate the fair value of QVC determined by our discounted cash flow analysis. In our market approach, we identified publicly traded companies whose business and financial risks are comparable to those of QVC. We then compared the market values of those companies to the calculated value of QVC. We also identified recent sales of companies in lines of business similar to QVC and compared the sales prices in those transactions to the calculated value of QVC. The range of values determined in our market approach corroborated the value calculated in our discounted cash flow analysis for QVC.

The estimated fair value of QVC determined in the foregoing Step 1 Test was clearly in excess of our carrying value for QVC, and accordingly no Step 2 Test was performed and no impairment charge was recorded. We note that if our fair value estimate for QVC was 10% lower, we would still not have triggered a Step 1 failure and no impairment charge would be taken.

The foregoing impairment test requires a high degree of judgment with respect to estimates of future cash flows and discount rates as well as other assumptions. Therefore, any value ultimately derived from QVC may differ from our estimate of fair value. Further if the retail environment continues to experience recessionary pressures for an extended period of time, our cash flow projections will need to be revised downward and we could have impairment charges in the future. In this regard, we estimate that if we were to use a compound annual growth rate for QVC's revenue that is approximately 30% lower than the rate currently used in the 2009 Cash Flow Projections and that QVC achieved the margins assumed in the 2009 Cash Flow Projections, we would fail the Step 1 Test and would be required to perform the Step 2 Test to measure any impairment of QVC's goodwill.

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 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, 2009, 2008 and 2007, sales returns represented 18.7%, 19.8% 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, 2009, QVC's inventory is \$879 million, which is net of the obsolescence adjustment of \$113 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, 2009, QVC's trade accounts receivable are \$1,236 million, net of the allowance for doubtful accounts of \$80 million. Each of these adjustments requires management judgment and may not reflect actual results.

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

Interactive Group

At December 31, 2009, the Interactive Group consists of our subsidiaries QVC, Provide, Backcountry, Bodybuilding and BuySeasons, our interests in IAC/InterActiveCorp, Expedia, HSN, Interval, Ticketmaster, Tree.com and GSI Commerce, Inc. and \$2,135 million principal amount (as of December 31, 2009) of our publicly-traded debt.

The following discussion and analysis provides information concerning the results of operations of the Interactive Group. This discussion should be read in conjunction with (1) our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups filed as Exhibit 99.1 to this Annual Report on Form 10-K.

Results of Operations

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
<i>Revenue</i>			
QVC	\$7,374	7,303	7,397
E-commerce businesses	931	776	405
Corporate and other	—	—	—
	<u>\$8,305</u>	<u>8,079</u>	<u>7,802</u>
<i>Adjusted OIBDA</i>			
QVC	\$1,565	1,502	1,652
E-commerce businesses	103	71	40
Corporate and other	(14)	(18)	(8)
	<u>\$1,654</u>	<u>1,555</u>	<u>1,684</u>
<i>Operating Income (Loss)</i>			
QVC	\$1,019	956	1,114
E-commerce businesses	49	(29)	16
Corporate and other	(27)	(21)	(17)
	<u>\$1,041</u>	<u>906</u>	<u>1,113</u>

QVC. QVC is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs and via the Internet. In the United States, QVC’s live programming is aired through its nationally televised shopping network 24 hours a day (“QVC-US”). Internationally, QVC’s program services are based in the United Kingdom (“QVC-UK”), Germany (“QVC-Germany”) and Japan (“QVC-Japan”). QVC-UK broadcasts 24 hours a day with 17 hours of live programming, and QVC-Germany and QVC-Japan each broadcast live 24 hours a day. Additionally, QVC expects to launch its programming in Italy in the fourth quarter of 2010.

QVC's operating results are as follows:

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Net revenue	\$ 7,374	7,303	7,397
Cost of sales	(4,755)	(4,719)	(4,682)
Gross profit	2,619	2,584	2,715
Operating expenses	(684)	(703)	(690)
SG&A expenses (excluding stock-based compensation) . . .	(370)	(379)	(373)
Adjusted OIBDA	1,565	1,502	1,652
Stock-based compensation	(18)	(15)	(22)
Depreciation and amortization	(528)	(531)	(516)
Operating income	<u>\$ 1,019</u>	<u>956</u>	<u>1,114</u>

Net revenue is generated in the following geographical areas:

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
QVC-US	\$4,987	4,911	5,208
QVC-UK	578	660	707
QVC-Germany	942	954	870
QVC-Japan	867	778	612
	<u>\$7,374</u>	<u>7,303</u>	<u>7,397</u>

QVC's net revenue increased 1.0% and decreased 1.3% for the years ended December 31, 2009 and 2008, respectively, as compared to the corresponding prior year. The 2009 increase is comprised of \$124 million due to a 2.1% increase in the average sales price per unit ("ASP"), \$86 million due to lower estimated product returns and \$46 million primarily due to an increase in shipping and handling revenue. These increases were partially offset by a \$129 million decrease due to a 2.1% decrease in the number of units sold from 161.1 million to 157.8 million and \$56 million due to unfavorable foreign currency rates. Returns as a percent of gross product revenue decreased from 19.8% to 18.7% and reflect a shift in the mix from jewelry and apparel to home and accessories products which typically have lower return rates.

The 2008 decrease is comprised of \$257 million due to a 3.9% decrease in the number of units shipped and \$97 million due to lower shipping and handling revenue and an increase in estimated product returns. These decreases were partially offset by a \$167 million increase due to a 3.0% increase in the ASP and \$93 million due to favorable foreign currency rates. Returns as a percent of gross product revenue increased from 18.7% to 19.8% and reflect a higher ASP and a shift in the mix from home products to apparel products, which typically have higher return rates.

During the years ended December 31, 2009 and 2008, the changes in revenue and expenses were impacted by changes in the exchange rates for the UK pound sterling, the euro and the Japanese yen. In the event the U.S. dollar strengthens against these foreign currencies in the future, QVC's revenue

and operating cash flow will be negatively impacted. The percentage increase (decrease) in revenue for each of QVC's geographic areas in dollars and in local currency is as follows:

	Percentage increase (decrease) in net revenue			
	Year ended December 31, 2009		Year ended December 31, 2008	
	U.S. dollars	Local currency	U.S. dollars	Local currency
QVC-US	1.5%	1.5%	(5.7)%	(5.7)%
QVC-UK	(12.4)%	2.2%	(6.6)%	2.0%
QVC-Germany	(1.3)%	3.1%	9.7%	3.1%
QVC-Japan	11.4%	1.4%	27.1%	11.0%

QVC's net revenue increased in local currency in each geographical area for the year ended December 31, 2009 as compared to corresponding prior year period. QVC-US net revenue increased 13.4% in the fourth quarter of 2009 compared to a year-over-year decline in the first quarter and second quarter 2009 of 10.5% and 2.0%, respectively, and a 2.3% increase in the third quarter 2009. The growth in net revenue for the year ended December 31, 2009 as compared to the corresponding prior year period of 1.5% is due primarily to a decrease in return rates and an increase in shipping and handling revenue due to the full implementation and increased customer usage of prepaid return labels. In the fourth quarter of 2009, QVC-UK showed greater year-over-year growth in net revenue in local currency for the third consecutive quarter, resulting in a year to date net growth of 2.2% in local currency. The growth is the result of increased sales in the apparel and beauty product categories. QVC-Germany's net revenue in local currency increased 3.1% as they continue efforts to grow the beauty business. For the year ended December 31, 2009, QVC-Japan experienced growth in the accessories, apparel and jewelry product categories and declines in sales of home, health and beauty products.

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

QVC's gross profit percentage was 35.5%, 35.4% and 36.7% for the years ended December 31, 2009, 2008 and 2007, respectively. The decrease in gross profit percentage in 2008 is primarily due to lower initial product margins across all product categories.

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 decreased 2.7% and increased 1.9% for the years ended December 31, 2009 and 2008, respectively, as compared to the corresponding prior year period. The decrease in 2009 operating expenses is due primarily to lower customer service expenses due to staff efficiencies. As a percentage of net revenue, operating expenses were 9.3%, 9.6% and 9.3% for 2009, 2008 and 2007, respectively. The 2008 increase in operating expenses as a percent of revenue is due primarily to programming expenses, which are generally fixed costs, and to a lesser extent, increased commissions expense due to new fixed-rate agreements in QVC-UK and QVC-Japan.

QVC's SG&A expenses include personnel, information technology, provision for doubtful accounts, credit card income and marketing and advertising expenses. Such expenses decreased 2.4% in 2009 as higher bad debt expense (\$15 million) was more than offset by lower personnel and marketing expenses due to cost control measures and higher credit card income. SG&A expenses increased 1.6% in 2008 due primarily to a \$27 million increase in the bad debt provision and personnel expenses for salaries and benefits. In 2008 and 2009, QVC has experienced an increase in write-offs and reserves related to its installment receivables and private label credit card. Such increases in bad debt are due to an increase in customer use of the installment payment plan offered by QVC and to the recessionary economic conditions. Personnel expenses increased in 2008 primarily due to severance expenses of \$13 million primarily related to a reduction in workforce communicated in the fourth quarter of 2008. These increases were partially offset by an increase in credit card income of \$14 million, a \$9 million reversal in sales tax expense related to the settlement of certain audits as well as certain non-recurring marketing and legal items in 2007.

As previously noted, QVC intends to launch its television programming in Italy in the fourth quarter of 2010. QVC expects that QVC-Italy will incur an Adjusted OIBDA loss in 2010 of \$35-\$40 million, including start up costs. Included in QVC's results of operations for the year ended December 31, 2009 are \$5 million of costs related to the expected launch of the QVC-Italy service.

E-commerce businesses. The results of operations of Provide, BuySeasons, Backcountry and Bodybuilding are included in e-commerce businesses since their respective date of acquisition. Revenue and Adjusted OIBDA for the e-commerce businesses increased \$155 million or 20.0% and \$32 million or 45.1%, respectively, for the year ended December 31, 2009. Included in the overall increase in revenue and Adjusted OIBDA is \$62 million and \$16 million, respectively, related to small acquisitions by our e-commerce companies in 2008. Exclusive of the impact of acquisitions, the e-commerce revenue and Adjusted OIBDA increased organically 13.0% and 21.3%, respectively, for the year ended December 31, 2009. Included in organic growth is an increase of \$15 million related to commission revenue earned when customers sign up for third-party on-line discount services.

Fluctuations in e-commerce businesses from 2007 to 2008 are due primarily to the acquisitions of Backcountry and Bodybuilding in 2007. In addition to these acquisitions, Provide's revenue and Adjusted OIBDA increased 24% and 74%, respectively, for the year ended December 31, 2008, as compared to the corresponding prior year. Although our e-commerce businesses were able to grow their revenue and Adjusted OIBDA in 2008, the economic crisis slowed this growth. As further described above in our discussion of our consolidated results of operations, the impact of the economic conditions resulted in impairment charges for certain of our reporting units. Such impairment charges aggregated \$56 million for our e-commerce businesses and caused a decrease in our 2008 operating income.

Starz Group

The Starz Group is primarily comprised of our subsidiary Starz Entertainment and approximately \$542 million of corporate cash.

The following discussion and analysis provides information concerning the attributed results of operations of the Starz Group and is presented as through the Reclassification had been completed on January 1, 2007. This discussion should be read in conjunction with (1) our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups filed as Exhibited 99.1 to this Annual Report on Form 10-K.

Results of Operations

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
<i>Revenue</i>			
Starz Entertainment	\$1,193	1,111	1,066
Corporate and other	<u>11</u>	<u>13</u>	<u>25</u>
	<u>\$1,204</u>	<u>1,124</u>	<u>1,091</u>
<i>Adjusted OIBDA</i>			
Starz Entertainment	\$ 384	301	264
Corporate and other	<u>(10)</u>	<u>(11)</u>	<u>(5)</u>
	<u>\$ 374</u>	<u>290</u>	<u>259</u>
<i>Operating Income (Loss)</i>			
Starz Entertainment	\$ 330	(975)	210
Corporate and other	<u>(58)</u>	<u>(38)</u>	<u>(59)</u>
	<u>\$ 272</u>	<u>(1,013)</u>	<u>151</u>

Starz Entertainment. Starz Entertainment provides premium programming distributed by cable operators, direct-to-home satellite providers, telephone companies, other distributors and the Internet throughout the United States. Substantially all of Starz Entertainment’s revenue is derived from the delivery of movies to subscribers under affiliation agreements with television video programming distributors. Some of Starz Entertainment’s affiliation agreements provide for payments to Starz Entertainment based on the number of subscribers that receive Starz Entertainment’s services (“consignment agreements”). Starz Entertainment also has fixed-rate affiliation agreements with certain of its customers. Pursuant to these agreements, the customers pay an agreed-upon rate regardless of the number of subscribers. The agreed-upon rate is contractually increased annually or semi-annually as the case may be. The affiliation agreements expire in 2010 through 2016. During the year ended December 31, 2009, 57.3% of Starz Entertainment’s revenue was generated by its three largest customers, Comcast, DIRECTV and Dish Network, each of which individually generated more than 10% of Starz Entertainment’s revenue for such period.

Starz Entertainment’s operating results are as follows:

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Revenue	\$1,193	1,111	1,066
Operating expenses	(677)	(675)	(692)
SG&A expenses	<u>(132)</u>	<u>(135)</u>	<u>(110)</u>
Adjusted OIBDA	384	301	264
Stock-based compensation	(38)	(19)	(33)
Depreciation and amortization	(16)	(18)	(21)
Impairment of long-lived assets	<u>—</u>	<u>(1,239)</u>	<u>—</u>
Operating income (loss)	<u>\$ 330</u>	<u>(975)</u>	<u>210</u>

Starz Entertainment’s revenue increased 7.4% and 4.2% for the years ended December 31, 2009 and 2008, respectively, as compared to the corresponding prior year. The 2009 increase in revenue is comprised of \$30 million due to growth in the weighted average number of subscriptions, \$31 million

due to a higher effective rate for Starz Entertainment's services and \$21 million due to new products and services. The increase in revenue in 2008 is comprised of \$33 million due to a higher effective rate for Starz Entertainment's services and \$12 million due to growth in the weighted average number of subscriptions.

The Starz movie service and Encore and the Encore thematic multiplex channels ("EMP") movie service are the primary drivers of Starz Entertainment's revenue. Starz average subscriptions increased 2.8% and 6.7% in 2009 and 2008, respectively; and EMP average subscriptions were essentially flat in 2009 and increased 8.1% in 2008. The impact on revenue of subscription increases is affected by the relative percentages of increases under consignment agreements and fixed-rate affiliation agreements. In this regard, in 2009 subscriptions under fixed-rate agreements decreased while subscriptions under consignment agreements increased. Conversely, in 2008, subscriptions under fixed-rate affiliation agreements increased at a higher rate than subscriptions under consignment agreements.

Starz Entertainment's operating expenses were relatively flat in 2009 and decreased 2.5% in 2008, as compared to the corresponding prior year. Programming expenses are Starz Entertainment's primary operating expense and comprised approximately 91% of the total for 2009. Starz Entertainment has been able to reduce its programming expenses in recent years with expenses decreasing from \$656 million in 2007 to \$629 million in 2008 to \$615 million in 2009. The 2009 decrease in programming expenses is due to a decrease in the percentage of first-run movie exhibitions (which have a relatively higher cost per title) as compared to the number of library product and original programming exhibitions (\$31 million) and a lower effective rate for first-run movies (\$2 million), partially offset by the amortization of production costs for original series (\$19 million). We expect that amortization of production costs for original series will increase in the future as Starz Entertainment continues to invest in original programming. The 2009 decrease in programming expenses was more than offset by (i) the amortization and write-off of production costs related to the home video and international distribution of original programming and (ii) other operating expenses.

The 2008 decrease in programming expense is due to lower amortization (\$25 million) of upfront bonus payments made under output agreements and a decrease in the percentage of first-run movie exhibitions as compared to the number of library product exhibitions (\$44 million), partially offset by a higher effective rate for first-run movies (\$34 million) and the amortization of production costs for original series (\$8 million).

Starz Entertainment's SG&A expenses decreased slightly and increased 22.7% during 2009 and 2008, respectively, as compared to the corresponding prior year. The 2009 decrease is due to lower advertising expenses. The 2008 increase is due primarily to higher marketing and advertising costs related to Starz new branding campaign and an increase in marketing support.

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

In connection with our 2008 annual evaluation of the recoverability of our goodwill, we estimated the fair value of our reporting units using a combination of discounted cash flows and market comparisons and determined that the carrying value of the goodwill for Starz Entertainment exceeded its fair value, and we recorded an impairment charge of \$1,239 million for Starz Entertainment. See our discussion of our consolidated results of operations above for a more complete description of these impairment charges.

Capital Group

The Capital Group is comprised of our subsidiaries and assets not attributed to the Interactive Group or the Starz Group, including our subsidiaries Starz Media, ANLBC and TruePosition, as well as investments in SIRIUS XM, Time Warner Inc., Sprint Nextel Corporation and other public and private companies. In addition, we have attributed \$4,149 million principal amount (as of December 31, 2009) of our exchangeable senior debentures and other parent debt to the Capital Group.

The following discussion and analysis provides information concerning the attributed results of operations of the Capital Group. The following discussion is presented as though the Reclassification had been completed on January 1, 2007. This discussion should be read in conjunction with (1) our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups filed as Exhibit 99.1 to this Annual Report on Form 10-K.

Results of Operations

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
<i>Revenue</i>			
Starz Media	\$ 364	321	254
Corporate and other	285	293	231
	<u>\$ 649</u>	<u>614</u>	<u>485</u>
<i>Adjusted OIBDA</i>			
Starz Media	\$ (93)	(189)	(143)
Corporate and other	(82)	(108)	(67)
	<u>\$(175)</u>	<u>(297)</u>	<u>(210)</u>
<i>Operating Loss</i>			
Starz Media	\$(100)	(395)	(342)
Corporate and other	(163)	(256)	(164)
	<u>\$(263)</u>	<u>(651)</u>	<u>(506)</u>

Revenue. The Capital Group's combined revenue increased 5.7% and 26.6% for the years ended December 31, 2009 and 2008, respectively, as compared to the corresponding prior year. The 2009 increase in Starz Media's revenue is attributable to a \$50 million aggregate increase in theatrical, home video and television revenue from movies released by Overture Films, including \$17 million of intercompany revenue from Starz Entertainment. Such intercompany revenue is eliminated in corporate and other. The increases for Overture Films were partially offset by lower theatrical and home video revenue for Starz Media's other divisions. The increase in Starz Media's revenue in 2008 is due primarily to (i) \$63 million recognized from the theatrical release of eight films by Overture Films and one film by Starz Animation, as compared with no film releases in 2007, and (ii) an increase of \$28 million in home video revenue. These increases in revenue were partially offset by a \$20 million decrease in revenue related to for-hire animation projects. Included in Capital Group's corporate and other revenue are payments from CNBC related to a revenue sharing agreement between our company and CNBC. The agreement has no termination date, and payments aggregated \$24 million, \$24 million and \$21 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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

In November 2006, TruePosition signed an amendment to its existing services contract with AT&T Corp. that requires TruePosition to develop and deliver additional software features. Because TruePosition did not meet GAAP requirements for revenue recognition, TruePosition was required to defer revenue recognition until all contracted items had been delivered. TruePosition is currently evaluating recently issued accounting standards and believes that based on these new rules it may be able to recognize revenue from this contract upon adoption of the new rules in 2010. It is expected that accounting for TruePosition's services contract with its other major customer, T-Mobile, Inc., will be similar. It should be noted that both AT&T and T-Mobile are paying currently for services they receive and that the aforementioned deferrals have normal gross profit margins included.

Adjusted OIBDA. The Capital Group's Adjusted OIBDA loss decreased \$122 million and increased \$87 million in 2009 and 2008, respectively, as compared to the corresponding prior year. Starz Media's Adjusted OIBDA loss decreased in 2009 and increased in 2008 primarily due to the timing of revenue and expenses associated with films released by Overture Films and Starz Animation in 2009 and 2008. Partially offsetting the increased losses in 2008 was a \$53 million decrease in capitalized production cost write-offs. Theatrical print costs and advertising expenses related to the release of a film are recognized at the time the advertisements are run and generally exceed the theatrical revenue earned from the film. In addition, amortization of film production costs begins when revenue recognition begins. We are currently evaluating strategic alternatives for Overture Films. While a final decision has not been made regarding the future of Overture Films, we do not expect it to incur annual operating losses in the future of the same magnitude that it has experienced in recent years.

The lower 2009 Adjusted OIBDA loss for corporate and other is due to TruePosition which improved \$36 million as a result of lower operating costs for its primary equipment business and reduced marketing expenses for its new product and service initiatives. The improvement for TruePosition was partially offset by higher Adjusted OIBDA losses for the Capital Group's other subsidiaries. In 2008, ANLBC's Adjusted OIBDA decreased \$22 million due to the inclusion of the first four months of the year during which ANLBC generally operates at a loss as no significant revenue is recognized until the first home game of the year in April. TruePosition's Adjusted OIBDA loss increased \$22 million in 2008 due to costs incurred for new product and service initiatives.

Starz Media's Adjusted OIBDA loss in 2007 resulted from (i) the \$79 million write-off of capitalized production costs due to the abandonment of certain films and downward adjustments to the revenue projections for certain television series and other films, (ii) start-up costs for Overture Films and (iii) lower than expected revenue for Anchor Bay, its DVD distribution division. TruePosition's 2007 Adjusted OIBDA loss was due in large part to the deferral of revenue under its AT&T and T-Mobile contracts described above and to losses incurred in connection with new product and service initiatives (\$25 million).

Impairment of long-lived assets. In connection with our 2008 annual evaluation of the recoverability of our goodwill, we estimated the fair value of our reporting units using a combination of discounted cash flows and market comparisons and determined that the carrying value of the goodwill for Starz Media and certain of our other subsidiaries exceeded its fair value, and we recorded an aggregate impairment charge of \$251 million. See our discussion of our consolidated results of operations above for a more complete description of this impairment charge.

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

Operating loss. The Capital Group's operating losses decreased in 2009 and increased in 2008. Such changes are due to the Adjusted OIBDA losses and impairment charges discussed above.

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 financing 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, 2009, our debt is comprised of the following amounts.

	Variable rate debt		Fixed rate debt	
	Principal amount	Weighted avg interest rate	Principal amount	Weighted avg interest rate
	dollar amounts in millions			
Interactive Group	\$3,124	4.5%	\$3,195	6.9%
Capital Group	\$1,717	0.9%	\$2,563	3.5%
Starz Group	\$ —	N/A	\$ 48	5.5%

In addition, QVC has entered into (i) interest rate swaps with an aggregate notional amount of \$2.2 billion pursuant to which it pays a fixed rate of 5.0-5.3% and receives variable payments at 3-month LIBOR and (ii) interest rate swaps with an aggregate notional amount of \$600 million pursuant to which it pays a fixed rate of 3.1% and receives variable payments at 3-month LIBOR.

Each of our tracking stock groups is exposed to changes in stock prices primarily as a result of our 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.

At December 31, 2009, the fair value of our AFS securities attributed to the Capital Group was \$3,333 million. Had the market price of such securities been 10% lower at December 31, 2009, the aggregate value of such securities would have been \$333 million lower. Our exchangeable senior debentures are also subject to market risk. Because we mark these instruments to fair value each reporting date, increases in the stock price of the respective underlying security generally result in higher liabilities and unrealized losses in our statement of operations.

The Interactive Group is exposed to foreign exchange rate fluctuations related primarily to the monetary assets and liabilities and the financial results of QVC's foreign subsidiaries. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated into U.S. dollars at period-end exchange rates, and the statements of operations are generally translated at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive

earnings (loss) as a separate component of stockholders' equity. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at the average rate for the period. Accordingly, the Interactive Group may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations.

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

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

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

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

At December 31, 2009, the counterparty to all of our derivative assets (\$752 million), which mature in 2010, was Deutsche Bank. To the extent we have borrowed against such derivative instruments, we have a right of offset with respect to our borrowings and amounts due from the counterparty under the derivative, thereby reducing our counterparty credit risk.

Financial Statements and Supplementary Data.

The consolidated financial statements of Liberty Media Corporation are filed under this Item, beginning on Page F-39. 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, principal accounting officer and principal financial officer (the “Executives”), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2009 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-37 for *Management’s Report on Internal Control Over Financial Reporting*.

See page F-38 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, 2009 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Other Information.

None.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

The Company assessed the design and effectiveness of internal control over financial reporting as of December 31, 2009. 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, 2009, Liberty Media Corporation's internal control over financial reporting is effectively designed and operating effectively.

Liberty Media Corporation's independent registered public accountants audited the consolidated financial statements and related disclosures in the Annual Report on Form 10-K and have issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears on page F-38.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited Liberty Media Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Liberty Media Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Liberty Media Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Liberty Media Corporation and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, comprehensive earnings, cash flows, and equity for each of the years in the three-year period ended December 31, 2009, and our report dated February 25, 2010 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Denver, Colorado
February 25, 2010

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Media Corporation and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, comprehensive earnings, cash flows, and equity for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Media Corporation and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in note 3 to the consolidated financial statements, effective January 1, 2009, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (included in FASB ASC Topic 810, *Consolidation*), and effective January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* (included in FASB ASC Topic 825, *Financial Instruments*), and SFAS No. 157, *Fair Value Measurements* (included in FASB ASC Topic 820, *Fair Value Measurements and Disclosures*).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Liberty Media Corporation and subsidiaries' internal control over financial reporting as of December 31, 2009, 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 25, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Denver, Colorado
February 25, 2010

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
	<u>amounts in millions</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,835	3,060
Trade and other receivables, net	1,518	1,508
Inventory, net	985	1,032
Program rights	469	491
Financial instruments (note 9)	752	1,133
Other current assets	168	232
Assets of discontinued operations—current (note 5)	—	163
Total current assets	<u>8,727</u>	<u>7,619</u>
Investments in available-for-sale securities and other cost investments, including \$851 million and \$392 million pledged as collateral for share borrowing arrangements (note 7)	4,120	2,857
Long-term financial instruments (note 9)	—	1,166
Investments in affiliates, accounted for using the equity method (note 8)	1,030	1,136
Property and equipment, at cost	2,163	2,023
Accumulated depreciation	<u>(858)</u>	<u>(695)</u>
	<u>1,305</u>	<u>1,328</u>
Intangible assets not subject to amortization (note 10):		
Goodwill	6,225	6,201
Trademarks	2,508	2,505
Other	153	158
	<u>8,886</u>	<u>8,864</u>
Intangible assets subject to amortization, net (note 10)	3,027	3,356
Other assets, at cost, net of accumulated amortization (note 10)	1,536	1,529
Assets of discontinued operations (note 5)	—	14,048
Total assets	<u>\$28,631</u>	<u>41,903</u>

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
December 31, 2009 and 2008

	2009	2008
	amounts in millions	
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 598	538
Accrued liabilities	1,037	1,092
Financial instruments (note 9)	1,002	553
Current portion of debt (note 11)	1,932	616
Current deferred income tax liabilities (note 12)	1,247	773
Other current liabilities	360	291
Liabilities of discontinued operations—current (note 5)	—	277
Total current liabilities	6,176	4,140
Long-term debt, including \$2,254 million and \$1,691 million measured at fair value (note 11)	7,842	9,630
Long-term financial instruments (note 9)	132	189
Deferred income tax liabilities (note 12)	2,675	3,143
Other liabilities	1,568	1,546
Liabilities of discontinued operations (note 5)	—	3,498
Total liabilities	18,393	22,146
Equity		
Stockholders' equity (note 13):		
Preferred stock, \$.01 par value. Authorized 50,000,000 shares; no shares issued	—	—
Series A Liberty Capital common stock, \$.01 par value. Authorized 2,000,000,000 shares; issued and outstanding 89,814,862 shares at December 31, 2009 and 90,042,840 shares at December 31, 2008	1	1
Series B Liberty Capital common stock, \$.01 par value. Authorized 75,000,000 shares; issued and outstanding 7,405,151 shares at December 31, 2009 and 6,024,724 shares at December 31, 2008	—	—
Series A Liberty Starz common stock, \$.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 49,673,954 shares at December 31, 2009 and 493,256,228 shares at December 31, 2008	—	5
Series B Liberty Starz common stock, \$.01 par value. Authorized 150,000,000 shares; issued and outstanding 2,365,545 shares at December 31, 2009 and 23,706,209 shares at December 31, 2008	—	—
Series A Liberty Interactive common stock, \$.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 567,044,845 shares and 564,385,343 shares at December 31, 2009 and 2008	6	6
Series B Liberty Interactive common stock, \$.01 par value. Authorized 150,000,000 shares; issued and outstanding 29,276,689 shares and 29,441,916 shares at December 31, 2009 and 2008	—	—
Additional paid-in capital	8,900	25,132
Accumulated other comprehensive earnings, net of taxes (note 17)	352	70
Retained earnings (deficit)	850	(5,612)
Total stockholders' equity	10,109	19,602
Noncontrolling interests in equity of subsidiaries	129	155
Total equity	10,238	19,757
Commitments and contingencies (note 19)		
Total liabilities and equity	\$28,631	41,903

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions, except per share amounts		
Revenue:			
Net retail sales	\$ 8,305	8,079	7,802
Communications and programming services	1,853	1,738	1,576
	<u>10,158</u>	<u>9,817</u>	<u>9,378</u>
Operating costs and expenses:			
Cost of sales	5,332	5,224	4,925
Operating	1,923	1,945	1,896
Selling, general and administrative, including stock-based compensation (note 3)	1,178	1,149	913
Depreciation	189	191	162
Amortization	477	497	501
Impairment of long-lived assets (note 10)	9	1,569	223
	<u>9,108</u>	<u>10,575</u>	<u>8,620</u>
Operating income (loss)	1,050	(758)	758
Other income (expense):			
Interest expense	(628)	(667)	(641)
Dividend and interest income	125	174	264
Share of earnings (losses) of affiliates, net (note 8)	(58)	(1,263)	9
Realized and unrealized gains (losses) on financial instruments, net (note 9)	(155)	(260)	1,269
Gains on dispositions, net (notes 7 and 8)	284	15	646
Other than temporary declines in fair value of investments (note 7)	(9)	(441)	(33)
Gain (loss) on early extinguishment of debt	(11)	240	—
Other, net	23	(71)	—
	<u>(429)</u>	<u>(2,273)</u>	<u>1,514</u>
Earnings (loss) from continuing operations before income taxes	621	(3,031)	2,272
Income tax benefit (expense) (note 12)	16	742	(313)
Earnings (loss) from continuing operations	637	(2,289)	1,959
Earnings from discontinued operations, net of taxes (note 5)	5,864	5,812	190
Net earnings	6,501	3,523	2,149
Less net earnings attributable to the noncontrolling interests	39	44	35
Net earnings attributable to Liberty Media Corporation stockholders	<u>\$ 6,462</u>	<u>3,479</u>	<u>2,114</u>
Net earnings (loss) attributable to Liberty Media Corporation stockholders:			
Liberty Capital common stock	\$ 127	(526)	—
Liberty Starz common stock	6,077	(616)	—
Liberty Interactive common stock	258	(781)	441
Old Liberty Capital common stock	—	5,402	1,673
	<u>\$ 6,462</u>	<u>3,479</u>	<u>2,114</u>

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)
Years ended December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions, except per share amounts		
Basic earnings (loss) from continuing operations attributable to Liberty Media Corporation stockholders per common share (note 3):			
Series A and Series B Liberty Capital common stock	\$ 1.32	(4.65)	—
Series A and Series B Liberty Starz common stock	\$.46	(1.87)	—
Series A and Series B Liberty Interactive common stock	\$.43	(1.31)	.70
Old Series A and Series B Liberty Capital common stock	\$ —	(.46)	11.19
Diluted earnings (loss) from continuing operations attributable to Liberty Media Corporation stockholders per common share (note 3):			
Series A and Series B Liberty Capital common stock	\$ 1.31	(4.65)	—
Series A and Series B Liberty Starz common stock	\$.46	(1.87)	—
Series A and Series B Liberty Interactive common stock	\$.43	(1.31)	.69
Old Series A and Series B Liberty Capital common stock	\$ —	(.46)	11.11
Basic net earnings (loss) attributable to Liberty Media Corporation stockholders per common share (note 3):			
Series A and Series B Liberty Capital common stock	\$ 1.32	(4.65)	—
Series A and Series B Liberty Starz common stock	\$ 13.13	(1.19)	—
Series A and Series B Liberty Interactive common stock	\$.43	(1.31)	.70
Old Series A and Series B Liberty Capital common stock	\$ —	41.88	12.67
Diluted net earnings (loss) attributable to Liberty Media Corporation stockholders per common share (note 3):			
Series A and Series B Liberty Capital common stock	\$ 1.31	(4.65)	—
Series A and Series B Liberty Starz common stock	\$ 13.04	(1.19)	—
Series A and Series B Liberty Interactive common stock	\$.43	(1.31)	.69
Old Series A and Series B Liberty Capital common stock	\$ —	41.55	12.58

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
Years ended December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>amounts in millions</u>		
Net earnings	\$6,501	3,523	2,149
Other comprehensive earnings (loss), net of taxes (note 17):			
Foreign currency translation adjustments	3	(19)	101
Unrealized holding gains (losses) arising during the period	230	(500)	(1,239)
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	(27)	273	(375)
Share of other comprehensive earnings (loss) of equity affiliates	(5)	(10)	3
Other	43	(62)	(46)
Other comprehensive earnings (loss) from discontinued operations	31	(2,618)	(317)
Other comprehensive earnings (loss)	<u>275</u>	<u>(2,936)</u>	<u>(1,873)</u>
Comprehensive earnings	6,776	587	276
Less comprehensive earnings attributable to the noncontrolling interests	<u>32</u>	<u>71</u>	<u>41</u>
Comprehensive earnings attributable to Liberty Media Corporation stockholders	<u>\$6,744</u>	<u>516</u>	<u>235</u>
Comprehensive earnings (loss) attributable to Liberty Media Corporation stockholders:			
Liberty Capital common stock	\$ 167	(537)	—
Liberty Starz common stock	6,108	(649)	—
Liberty Interactive common stock	469	(1,114)	100
Old Liberty Capital common stock	—	2,816	135
	<u>\$6,744</u>	<u>516</u>	<u>235</u>

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions (see note 4)		
Cash flows from operating activities:			
Net earnings	\$ 6,501	3,523	2,149
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Earnings from discontinued operations	(5,864)	(5,812)	(190)
Depreciation and amortization	666	688	663
Impairment of long-lived assets	9	1,569	223
Stock-based compensation	128	49	89
Cash payments for stock-based compensation	(11)	(24)	(40)
Noncash interest expense	97	8	9
Share of losses (earnings) of affiliates, net	58	1,263	(9)
Realized and unrealized losses (gains) on financial instruments, net	155	260	(1,269)
Gains on disposition of assets, net	(284)	(15)	(646)
Other than temporary declines in fair value of investments	9	441	33
Deferred income tax expense (benefit)	(158)	(997)	120
Other noncash charges (credits), net	75	(80)	141
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions:			
Current and other assets	19	(143)	(434)
Payables and other current liabilities	47	(88)	269
Net cash provided by operating activities	<u>1,447</u>	<u>642</u>	<u>1,108</u>
Cash flows from investing activities:			
Cash proceeds from dispositions	557	35	495
Proceeds from settlement of financial instruments	1,374	33	75
Cash received in exchange transactions	—	—	1,154
Cash paid for acquisitions, net of cash acquired	(4)	(77)	(243)
Investments in and loans to cost and equity investees	(750)	(591)	(159)
Repayment of loan by equity investee	634	—	—
Investment in special purpose entity	—	—	(750)
Capital expended for property and equipment	(264)	(202)	(315)
Net decrease (increase) in restricted cash	54	383	(882)
Other investing activities, net	53	(83)	(10)
Net cash provided (used) by investing activities	<u>1,654</u>	<u>(502)</u>	<u>(635)</u>
Cash flows from financing activities:			
Borrowings of debt	3,338	3,031	1,869
Repayments of debt	(4,682)	(2,763)	(498)
Repurchases of Liberty common stock	(18)	(537)	(2,529)
Settlement of financial instruments	(149)	(346)	—
Premium proceeds from financial instruments	332	—	—
Contribution from noncontrolling owner	—	—	751
Other financing activities, net	(1)	(10)	2
Net cash used by financing activities	<u>(1,180)</u>	<u>(625)</u>	<u>(405)</u>
Effect of foreign currency exchange rates on cash	<u>(25)</u>	<u>17</u>	<u>8</u>
Net cash provided by (to) discontinued operations:			
Cash provided (used) by operating activities	(5)	2	58
Cash used by investing activities	(15)	(1,464)	(2)
Cash provided (used) by financing activities	—	1,930	(106)
Change in available cash held by discontinued operations	(101)	(68)	4
Net cash provided by (to) discontinued operations	<u>(121)</u>	<u>400</u>	<u>(46)</u>
Net increase (decrease) in cash and cash equivalents	1,775	(68)	30
Cash and cash equivalents at beginning of year	3,060	3,128	3,098
Cash and cash equivalents at end of year	<u>\$ 4,835</u>	<u>3,060</u>	<u>3,128</u>

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

Years ended December 31, 2009, 2008 and 2007

	Stockholders' Equity													
	Preferred stock	Common stock								Additional paid-in capital	Accumulated other comprehensive earnings	Retained earnings (deficit)	Noncontrolling interests in equity of subsidiaries	Total equity
		Liberty Capital		Liberty Starz		Liberty Interactive		Old Liberty Capital						
	Series A	Series B	Series A	Series B	Series A	Series B	Series A	Series B						
	amounts in millions													
Balance at January 1, 2007	\$—	—	—	—	—	6	—	1	—	28,112	5,952	(12,438)	290	21,923
Net earnings	—	—	—	—	—	—	—	—	—	—	2,114	—	35	2,149
Other comprehensive earnings (loss)	—	—	—	—	—	—	—	—	—	—	(1,879)	—	6	(1,873)
Cumulative effects of accounting changes (note 3)	—	—	—	—	—	—	—	—	—	—	—	193	—	193
Issuance of common stock upon exercise of stock options	—	—	—	—	—	—	—	—	—	35	—	—	—	35
Stock compensation	—	—	—	—	—	—	—	—	—	24	—	—	5	29
Series A Liberty Interactive stock repurchases	—	—	—	—	—	—	—	—	—	(1,224)	—	—	—	(1,224)
Series A Liberty Capital stock repurchases	—	—	—	—	—	—	—	—	—	(1,305)	—	—	—	(1,305)
Liberty acquisition of noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	—	(35)	(35)
Sale by Liberty of controlling interest in subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	(132)	(132)
Contribution by noncontrolling interests	—	—	—	—	—	—	—	—	—	—	—	—	751	751
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	—	—	(54)	(54)
Other	—	—	—	—	—	—	—	—	—	(5)	—	—	—	(5)
Balance at December 31, 2007	—	—	—	—	—	6	—	1	—	25,637	4,073	(10,131)	866	20,452
Net earnings	—	—	—	—	—	—	—	—	—	—	—	3,479	44	3,523
Other comprehensive earnings (loss)	—	—	—	—	—	—	—	—	—	—	(2,963)	—	27	(2,936)
Cumulative effects of accounting changes (note 3)	—	—	—	—	—	—	—	—	—	—	(1,040)	1,040	—	—
Distribution of Liberty Entertainment and Liberty Capital common stock to stockholders (note 2)	—	1	—	5	—	—	—	(1)	—	(5)	—	—	—	—
Stock compensation	—	—	—	—	—	—	—	—	—	35	—	—	—	35
Series A Liberty Interactive stock repurchases	—	—	—	—	—	—	—	—	—	(75)	—	—	—	(75)
Series A Liberty Capital stock repurchases	—	—	—	—	—	—	—	—	—	(462)	—	—	—	(462)
Unwind of special purpose entity	—	—	—	—	—	—	—	—	—	—	—	—	(750)	(750)
Liberty purchase of noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	—	(11)	(11)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	—	—	(21)	(21)
Other	—	—	—	—	—	—	—	—	—	2	—	—	—	2
Balance at December 31, 2008	—	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 2)	—	—	—	(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

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009, 2008 and 2007

(1) Basis of Presentation

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

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

(2) Tracking Stocks

Prior to March 3, 2008, Liberty had two tracking stocks, Liberty Interactive common stock and Liberty Capital common stock, which were intended to track and reflect the economic performance of one of two groups, the Interactive Group and the Capital Group, respectively.

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

As more fully described in note 5, on November 19, 2009, Liberty completed its previously announced split-off (the “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”). The Split-Off was accomplished by a redemption (the “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, pursuant to which, 0.9 of each outstanding share of Liberty Entertainment common stock was redeemed for 0.9 of a share of the corresponding series of common stock of LEI, with payment of cash in lieu of any fractional shares. Subsequent to the Redemption, Liberty redesignated the Entertainment Group as the Starz Group.

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

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

The term “Interactive Group” does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which Liberty has attributed to that group. As of December 31, 2009, the assets and businesses Liberty has attributed to the Interactive Group are those engaged in video and on-line commerce, and include its subsidiaries QVC, Inc. (“QVC”), Provide Commerce, Inc. (“Provide”), Backcountry.com, Inc. (“Backcountry”), Bodybuilding.com, LLC (“Bodybuilding”) and BuySeasons, Inc. (“BuySeasons”) and its interests in Expedia, Inc. (“Expedia”), HSN, Inc. (“HSN”), Interval Leisure Group, Inc. (“Interval”), Ticketmaster Entertainment, Inc. (“Ticketmaster”), Tree.com, Inc. (“Lending Tree”) and IAC/InterActiveCorp (“IAC”). In addition, Liberty has attributed \$2,135 million principal amount (as of December 31, 2009) of its public debt to the Interactive Group. The Interactive Group will also include such other businesses, assets and liabilities that Liberty’s board of directors may in the future determine to attribute to the Interactive Group, including such other businesses and assets as Liberty may acquire for the Interactive Group.

Similarly, the term “Starz Group” does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which Liberty has attributed to that group. The Starz Group focuses primarily on video programming and is comprised primarily of Starz Entertainment, LLC (“Starz Entertainment”) and \$542 million of corporate cash (as of December 31, 2009). The Starz Group will also include such other businesses, assets and liabilities that Liberty’s board of directors may in the future determine to attribute to the Starz Group, including such other businesses as Liberty may acquire for the Starz Group.

The term “Capital Group” also does not represent a separate legal entity, rather it represents all of Liberty’s businesses, assets and liabilities other than those which have been attributed to the Interactive Group or the Starz Group. The assets and businesses attributed to the Capital Group include Liberty’s subsidiaries: Starz Media, LLC (“Starz Media”), Atlanta National League Baseball Club, Inc. (“ANLBC”) and TruePosition, Inc. (“TruePosition”); and its interests in Sirius XM Radio Inc. (“SIRIUS XM”), Time Warner Inc., Time Warner Cable Inc. and Sprint Nextel Corporation. In addition, Liberty has attributed \$3,157 million of cash, including subsidiary cash, and \$4,149 million principal amount (as of December 31, 2009) of its exchangeable senior debentures and other parent debt to the Capital Group. The Capital Group will also include such other businesses, assets and liabilities that Liberty’s board of directors may in the future determine to attribute to the Capital Group, including such other businesses and assets as Liberty may acquire for the Capital Group.

During the second quarter of 2009, each of the Starz Group and the Capital Group made intergroup loans to the Interactive Group in the amount of \$250 million. See note 11.

On February 25, 2010, Liberty announced that its board of directors had resolved to effect the following changes in attribution between the Capital Group and the Interactive Group, effective immediately (the “Reattribution”):

- the change in attribution from the Interactive Group to the Capital Group of Liberty’s 14.6% ownership interest in Live Nation Entertainment, Inc.;
- the change in attribution from the Capital Group to the Interactive Group of the following debt securities:
 - \$469 million in principal amount of 4% Exchangeable Senior Debentures due 2029 (the “2029 Exchangeables”);

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

- \$460 million in principal amount of 3.75% Exchangeable Senior Debentures due 2030 (the “2030 Exchangeables”); and
- \$492 million in principal amount of 3.5% Exchangeable Senior Debentures due 2031 (the “2031 Exchangeables”, and together with the 2029 Exchangeables and the 2030 Exchangeables, the “Exchangeable Notes”);
- the change in attribution from the Capital Group to the Interactive Group of approximately \$830 million in net taxable income to be recognized ratably in tax years 2014 through 2018 as a result of the cancellation in April 2009 of \$400 million in principal amount of 2029 Exchangeables and \$350 million in principal amount of 2030 Exchangeables; and
- the change in attribution from the Capital Group to the Interactive Group of \$807 million in cash.

Liberty will account for the Reattribution prospectively. This change in attribution has no effect on the assets and liabilities attributed to the Starz Group.

See page F-98 for unaudited attributed financial information for Liberty’s tracking stock groups.

(3) Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Receivables

Receivables are reflected net of an allowance for doubtful accounts. Such allowance aggregated \$116 million and \$104 million at December 31, 2009 and 2008, respectively. A summary of activity in the allowance for doubtful accounts is as follows:

	<u>Balance beginning of year</u>	<u>Additions</u>		<u>Deductions— write-offs</u>	<u>Balance end of year</u>
		<u>Charged to expense</u>	<u>Acquisitions</u>		
	amounts in millions				
2009	<u>\$104</u>	<u>81</u>	<u>—</u>	<u>(69)</u>	<u>116</u>
2008	<u>\$ 80</u>	<u>66</u>	<u>1</u>	<u>(43)</u>	<u>104</u>
2007	<u>\$ 72</u>	<u>41</u>	<u>1</u>	<u>(34)</u>	<u>80</u>

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.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

Program Rights

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

Investment in Films and Television Programs

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

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

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

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

Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale ("AFS") and are carried at fair value generally based on quoted market prices. Effective January 1, 2008, 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"). Previously under GAAP, entities were required to recognize changes in fair value of AFS securities in the balance sheet in accumulated other comprehensive earnings. Liberty has entered into economic hedges for 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

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

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 December 31, 2009 and 2008 consolidated statement of operations. The amount of unrealized gains related to the Non-strategic Securities and included in accumulated other comprehensive earnings in the Company’s balance sheet as of January 1, 2008 aggregated \$1,040 million and was reclassified to accumulated deficit. The total value of AFS securities for which the Company has elected the fair value option aggregated \$3,063 million and \$2,089 million as of December 31, 2009 and 2008, 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.

Prior to January 1, 2009, changes in the Company’s proportionate share of the underlying equity of an equity method investee, which resulted from the issuance of additional equity securities by such equity investee (“SAB 51 Gain”), were recognized in equity. Subsequent to January 1, 2009, such changes are recognized in earnings.

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.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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Derivative Instruments and Hedging Activities

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

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

In addition, to the extent Liberty borrows against a derivative instrument, it has a right of offset with respect to its borrowings and amounts due from the counterparty under the derivative, thereby reducing its counterparty risk.

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

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. Through November 2008, certain of these interest rate swap arrangements were designated as cash flow hedges. The Company assessed the effectiveness of its interest rate swaps using the hypothetical derivative method. Hedge ineffectiveness had no significant impact on earnings for the years ended December 31, 2009 and 2008. In December 2008, the interest rate swaps were determined to be ineffective due to changes in the interest rates on the underlying debt and no longer qualify as cash flow hedges. None of the Company's other derivatives have been designated as hedges.

The fair value of the Company's equity collars and other similar derivative instruments is estimated using the Black-Scholes model. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. The Company obtains volatility rates from pricing services based on the expected volatility of the underlying security over the remaining term of the derivative instrument. A discount

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rate is obtained at the inception of the derivative instrument and updated each reporting period based on the Company's estimate of the discount rate at which it could currently settle the derivative instrument. The Company considers its own credit risk as well as the credit risk of its counterparties in estimating the discount rate. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of derivative instruments may differ materially from these estimates.

Effective January 1, 2007, Liberty adopted new accounting literature which, among other things, permits fair value remeasurement of hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Prior to January 1, 2007, Liberty reported the fair value of the call option feature of its exchangeable senior debentures separate from the long-term debt. The long-term debt portion was reported as the difference between the face amount of the debenture and the fair value of the call option feature on the date of issuance and was accreted through interest expense to its face amount over the expected term of the debenture. Liberty now accounts for its exchangeable senior debentures at fair value rather than bifurcating such instruments into a debt instrument and a derivative instrument. Decreases in the fair value of the exchangeable debentures are included in realized and unrealized gains on financial instruments in the accompanying consolidated statements of operations.

The impact—increase/(decrease)—on Liberty's January 1, 2007 balance sheet of the change in accounting for its exchangeable senior debentures is as follows (amounts in millions):

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

Property and Equipment

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

Intangible Assets

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.

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

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, 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

Prior to January 1, 2009, recognition of the noncontrolling interests’ share of losses of subsidiaries was generally limited to the amount of such noncontrolling interests’ allocable portion of the common equity of those subsidiaries. Effective January 1, 2009, Liberty adopted new guidance which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary. Among other matters, (a) the previous limitations on allocation of losses to the noncontrolling interests were eliminated, (b) the noncontrolling interest is reported within equity in the balance sheet and (c) 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 Liberty maintains a controlling interest are recorded in equity. Liberty has applied the changes prospectively, except for the presentation and disclosure requirements, which have been applied retrospectively for all periods presented.

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

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exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in stockholders' equity.

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

Revenue Recognition

Revenue is recognized as follows:

- Revenue from retail sales is recognized at the time of 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, 2009, 2008 and 2007 aggregated \$1,626 million, \$1,760 million and \$1,651 million, respectively. Sales tax collected from customers on retail sales is recorded on a net basis and is not included in revenue.
- Programming revenue is recognized in the period during which programming is provided, pursuant to affiliation agreements.
- Certain subsidiaries of the Company earn revenue from the sale and licensing of equipment with embedded software and related service and maintenance. For multiple element contracts with vendor specific objective evidence, the Company recognizes revenue for each specific element when the earnings process is complete. If vendor specific objective evidence does not exist, revenue is deferred and recognized on a straight-line basis over the remaining term of the maintenance period after all other elements have been delivered.
- Revenue from the theatrical release of feature films is recognized at the time of exhibition based on the Company's participation in box office receipts. Revenue from television licensing is recognized when the film or program is complete in accordance with the terms of the arrangement, the license period has begun and is available for telecast or exploitation.

Cost of Sales

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

Advertising Costs

Advertising costs generally are expensed as incurred. Advertising expense aggregated \$363 million, \$377 million and \$165 million for the years ended December 31, 2009, 2008 and 2007, respectively. Co-operative marketing costs incurred as part of affiliation agreements with distributors are recognized as advertising expense to the extent an identifiable benefit is received and fair value of the benefit can be reasonably measured. Otherwise, such costs are recorded as a reduction of revenue.

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Stock-Based Compensation

As more fully described in note 15, 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, 2009	\$128
December 31, 2008	\$ 49
December 31, 2007	\$ 89

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, 2009, the total unrecognized compensation cost related to unvested Liberty equity Awards was approximately \$143 million. Such amount will be recognized in the Company’s consolidated statements of operations over a weighted average period of approximately 2.6 years.

Income Taxes

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

Effective January 1, 2007, Liberty adopted new accounting literature which clarified the accounting for uncertainty in income taxes recognized in a company’s financial statements and prescribed a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In instances where the Company has taken or expects to take a tax position in its tax return and the Company believes it is more likely than not that such tax position will be upheld by the relevant taxing authority, the Company may record a benefit for such tax position in its consolidated financial statements.

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The impact—increase/(decrease)—on Liberty’s balance sheet of the January 1, 2007 changes in accounting for uncertain income tax provisions is as follows (amounts in millions):

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

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

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

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

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>amounts in millions</u>		
Earnings (loss) from continuing operations	\$ 598	(2,333)	1,918
Earnings from discontinued operations	<u>5,864</u>	<u>5,812</u>	<u>196</u>
Net earnings	<u>\$6,462</u>	<u>3,479</u>	<u>2,114</u>

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.

Old Series A and Series B Liberty Capital Common Stock

Old Liberty Capital basic EPS for (i) the period from January 1, 2008 to the Reclassification and (ii) the year ended December 31, 2007 was computed by dividing the net earnings attributable to the Capital Group by the weighted average outstanding shares of Old Liberty Capital common stock for the period (129 million and 132 million, respectively). Fully diluted EPS for the two months in 2008 and for the year ended December 31, 2007 includes 1 million common stock equivalents.

Earnings from discontinued operations per common share for the year ended December 31, 2007 is \$1.48.

Series A and Series B Liberty Interactive Common Stock

Liberty Interactive basic EPS for the years ended December 31, 2009, 2008 and 2007 was computed by dividing the net earnings attributable to the Interactive Group by the weighted average

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outstanding shares of Liberty Interactive common stock for the period (594 million, 594 million and 634 million, respectively). Fully diluted EPS for the year ended December 31, 2007 includes 2 million common stock equivalents. Due to the relative insignificance of the dilutive securities for the years ended December 31, 2009 and 2008, their inclusion does not impact the EPS amount. Excluded from diluted EPS for the year ended December 31, 2009 are approximately 21 million potential common shares because their inclusion would be anti-dilutive.

Series A and Series B Liberty Starz Common Stock

Liberty Starz basic EPS for the year ended December 31, 2009 and for the period from the Reclassification to December 31, 2008 was computed by dividing the net earnings attributable to the Starz Group by the weighted average outstanding shares of Liberty Starz common stock for the period (463 million and 517 million, respectively). Fully diluted EPS for each period includes 3 million common stock equivalents. Excluded from diluted EPS for the year ended December 31, 2009 are approximately 2 million potential common shares because their inclusion would be anti-dilutive.

Series A and Series B Liberty Capital Common Stock

Liberty Capital basic and fully diluted EPS for the year ended December 31, 2009 and for the period from the Reclassification to December 31, 2008 was computed by dividing the net earnings attributable to the Capital Group by the weighted average outstanding shares of Liberty Capital common stock for the period (96 million and 113 million, respectively). Fully diluted EPS for the year ended December 31, 2009 includes 1 million common stock equivalents. Due to the relative insignificance of the dilutive securities for the period from the Reclassification to December 31, 2008, their inclusion does not impact the EPS amount. Excluded from diluted EPS for the year ended December 31, 2009 are approximately 2 million potential common shares because their inclusion would be anti-dilutive.

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

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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 2009, the Financial Accounting Standards Boards amended the Accounting Standards Codification ("ASC") as summarized in Accounting Standards Update ("ASU") 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements*, and ASU 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*. As summarized in ASU 2009-14, ASC Topic 985 has been amended to remove from the scope of industry specific revenue accounting guidance for software and software related transactions, tangible products containing software components and non-software components that function together to deliver the product's essential functionality. As summarized in ASU 2009-13, ASC Topic 605 has been amended (1) to provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) to require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have vendor-specific objective evidence or third-party evidence of selling price; and (3) to eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. The accounting changes summarized in ASU 2009-14 and ASU 2009-13 are effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application.

The Company is currently assessing the impact that these changes will have on its consolidated financial statements and is unable to quantify such impact or determine the timing and method of its adoption. As of December 31, 2009, the Company's subsidiary, TruePosition, Inc., had deferred revenue and deferred costs of \$1,037 million and \$434 million, respectively, which it believes will be impacted by the adoption of the new revenue recognition rules. The Company believes that application of these amendments will result in the revenue and related cost of sales being recognized at the time of sale for the hardware and software portions of bundled arrangements delivered by TruePosition rather than being deferred as is currently the case.

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(4) Supplemental Disclosures to Consolidated Statements of Cash Flows

	Years ended December 31,		
	2009	2008	2007
	amounts in millions		
Cash paid for acquisitions:			
Fair value of assets acquired	\$ 3	89	290
Net liabilities assumed	—	(29)	(41)
Deferred tax liabilities	—	17	1
Noncontrolling interest	1	—	—
Common stock issued	—	—	(7)
Cash paid for acquisitions, net of cash acquired	\$ 4	77	243
Available-for-sale securities exchanged for consolidated subsidiaries and cash	\$ —	—	1,718
Cash paid for interest	\$517	659	607
Cash paid for income taxes	\$204	374	195

(5) Discontinued Operations

Split Off of LEI

On February 27, 2008, Liberty completed a transaction with News Corporation (the “News Corporation Exchange”) in which Liberty exchanged all of its 512.6 million shares of News Corporation common stock valued at \$10,143 million on the closing date for a subsidiary of News Corporation that held an approximate 41% interest in DIRECTV, three regional sports television networks and \$463 million in cash. Liberty accounted for the News Corporation Exchange as a nonmonetary exchange and recognized a pre-tax gain of \$3,665 million based on the difference between the fair value and the cost basis of the News Corporation shares exchanged. The News Corporation Exchange qualified as an IRC Section 355 transaction, and therefore did not trigger federal or state income tax obligations. In addition, upon consummation of such transaction, the deferred tax liability previously recorded for the difference between Liberty’s book and tax bases in its News Corporation investment in the amount of \$1,791 million was reversed with an offset to income tax benefit.

On April 3, 2008, Liberty purchased 78.3 million additional shares of DIRECTV common stock in a private transaction for cash consideration of \$1.98 billion. Liberty funded the purchase with borrowings against a newly executed equity collar on 110 million DIRECTV common shares. As of May 5, 2008, Liberty’s ownership in DIRECTV was approximately 48%. As a result of stock repurchases by DIRECTV, Liberty’s ownership interest in DIRECTV increased to approximately 57% as of November 19, 2009. However, due to a standstill agreement with DIRECTV, Liberty’s ability to control DIRECTV was limited, and Liberty accounted for its investment using the equity method of accounting. Liberty’s share of the earnings of DIRECTV, including amortization of Liberty’s excess basis related to DIRECTV, aggregated \$386 million and \$404 million in 2009 and 2008, respectively. Such share of earnings are net of amortization of Liberty’s excess basis of \$279 million and \$224 million in 2009 and 2008, respectively.

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Summarized unaudited financial information for DIRECTV is as follows:

DIRECTV Consolidated Balance Sheets

	December 31,	
	2009	2008
	amounts in millions	
Current assets	\$ 5,055	4,044
Satellites, net	2,338	2,476
Property and equipment, net	4,138	4,171
Goodwill	4,164	3,753
Intangible assets	1,131	1,172
Other assets	1,434	923
Total assets	<u>\$18,260</u>	<u>16,539</u>
Current liabilities	\$ 5,701	3,585
Deferred income taxes	1,070	524
Long-term debt	6,500	5,725
Other liabilities	1,678	1,749
Noncontrolling interest	400	325
Stockholders' equity	2,911	4,631
Total liabilities and equity	<u>\$18,260</u>	<u>16,539</u>

DIRECTV Consolidated Statements of Operations

	Year ended	
	December 31,	
	2009	2008
	amounts in millions	
Revenue	\$ 21,565	19,693
Costs of revenue	(10,930)	(9,948)
Selling, general and administrative expenses	(5,322)	(4,730)
Depreciation and amortization	(2,640)	(2,320)
Operating income	2,673	2,695
Interest expense	(423)	(360)
DTV Business Combination	(491)	—
Other income, net	75	136
Income tax expense	(827)	(864)
Income from continuing operations	1,007	1,607
Income from discontinued operations	—	6
Net income	1,007	1,613
Less: Net income attributable to noncontrolling interest	(65)	(92)
Net income attributable to DIRECTV	<u>\$ 942</u>	<u>1,521</u>

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On November 19, 2009, Liberty completed the split off of LEI, and the business combination transaction among Liberty, LEI and DIRECTV. LEI held Liberty's 57% interest in DIRECTV (which had a carrying value of \$13,475 million at the time of the Split-Off), 100% interest in 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 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 1.11130 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 1.11130 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 Split-Off was conditioned on, among other matters, satisfaction and waiver of all conditions to the DTV Business Combination, the 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 Split-Off and the DTV Business Combination, no taxes have been recorded on the gain for financial statement purposes.

Sale of OpenTV Corp. and Ascent Entertainment Group, Inc.

In 2007, Liberty completed the sales of its consolidated subsidiaries OpenTV Corp. ("OPTV") and Ascent Entertainment Group, Inc. ("AEG"), both of which were attributed to the Capital Group. The gains from such sales are included in earnings from discontinued operations in the accompanying consolidated statement of operations.

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

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

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Revenue	\$ 240	267	104
Earnings before income taxes(1)	\$5,770	4,274	209

(1) Includes the gain from the News Corporation Exchange in 2008 and the gain from the LEI Split-Off/DTV Business Combination in 2009.

(6) 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:

<u>Description</u>	<u>Total</u>	<u>Fair Value Measurements at December 31, 2009 Using</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
		amounts in millions		
Available-for-sale securities	\$4,090	3,714	376	—
Financial instrument assets	\$ 752	—	752	—
Financial instrument liabilities	\$1,134	851	283	—
Debt	\$2,254	—	2,254	—

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

The Company incorporates a credit risk valuation adjustment in its fair value measurements to estimate the impact of both its own nonperformance risk and the nonperformance risk of its counterparties. The Company estimates credit risk associated with its and its counterparties nonperformance primarily by using observable credit default swap rates for terms similar to those of the remaining life of the instrument, adjusted for any master netting arrangements or other factors that provide an estimate of nonperformance risk. These are Level 3 inputs. However, as the credit risk

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valuation adjustments were not significant, the Company continues to report its equity collars, interest rate swaps and put options as Level 2.

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

Investments in AFS securities, including Non-strategic Securities, and other cost investments are summarized as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	<u>amounts in millions</u>	
Capital Group		
Time Warner Inc. (“Time Warner”)(1)	\$ 997	1,033
Time Warner Cable Inc. (“Time Warner Cable”)(1)	356	—
Sprint Nextel Corporation (“Sprint”)(1)	260	160
Motorola, Inc. (“Motorola”)(1)	403	328
Viacom, Inc.	226	145
CenturyTel, Inc/Embarq Corporation (“CenturyTel”)(1)	195	157
Other AFS equity securities(1)	220	40
Other AFS debt securities	676	224
Other cost investments and related receivables	22	31
Total attributed Capital Group	<u>3,355</u>	<u>2,118</u>
Interactive Group		
IAC/InterActiveCorp (“IAC”)	492	638
Other	242	101
Total attributed Interactive Group	<u>734</u>	<u>739</u>
Starz Group		
Other	31	—
Total attributed Starz Group	<u>31</u>	<u>—</u>
Consolidated Liberty	<u>\$4,120</u>	<u>2,857</u>

(1) Includes shares pledged as collateral for share borrowing arrangements. See note 9.

Time Warner

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

In March 2009, Time Warner Inc. completed the separation of Time Warner Cable from Time Warner Inc. by way of a dividend to Time Warner Inc. shareholders, including Liberty. Liberty received 8.6 million shares of Time Warner Cable and recorded its investment in Time Warner Cable based on

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Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

an allocation of its basis in Time Warner Inc. No gain or loss was recognized in connection with this transaction.

CBS Corporation

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

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

IAC/InterActiveCorp

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

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

During the year ended December 31, 2009, Liberty sold shares of IAC Class A common stock for aggregate cash proceeds of \$305 million and recognized a \$42 million pre-tax gain.

At December 31, 2009, Liberty owned approximately 18% of IAC common stock representing an approximate 56% voting interest. However, under governance arrangements existing at December 31, 2009, Mr. Barry Diller, the Chairman of IAC, voted Liberty’s shares, subject to certain limitations. Due to this voting arrangement and the fact that Liberty has rights to appoint only two of the twelve members of the IAC board of directors, Liberty’s ability to exert significant influence over IAC is limited. Accordingly, Liberty accounts for this investment as an AFS security.

Other Than Temporary Declines in Fair Value of Investments

During the years ended December 31, 2009, 2008 and 2007, Liberty determined that certain of its AFS securities and cost investments experienced other than temporary declines in value. The primary factors considered by Liberty in determining the timing of the recognition for these impairments was the length of time the investments traded below Liberty’s cost bases, the severity of the declines and the lack of near-term prospects for recovery in the stock prices. As a result, the carrying amounts of such investments were adjusted to their respective fair values based primarily on quoted market prices at the balance sheet date. These adjustments are reflected as other than temporary declines in fair value of investments in the consolidated statements of operations. The Company’s 2008 other than temporary declines in value include \$440 million related to its investment in IAC.

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Notes to Consolidated Financial Statements (Continued)

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Unrealized Holdings Gains and Losses

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

	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Equity securities</u>	<u>Debt securities</u>	<u>Equity securities</u>	<u>Debt securities</u>
	amounts in millions			
Gross unrealized holding gains	\$258	69	9	—
Gross unrealized holding losses	\$ —	—	(4)	—

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

Liberty has various investments accounted for using the equity method. The following table includes Liberty's carrying amount and percentage ownership of the more significant investments in affiliates at December 31, 2009 and the carrying amount at December 31, 2008:

	<u>December 31, 2009</u>		<u>December 31, 2008</u>
	<u>Percentage ownership</u>	<u>Carrying amount</u>	<u>Carrying amount</u>
	dollar amounts in millions		
Interactive Group			
Expedia	24%	\$ 631	559
Other	various	264	342
Capital Group			
SIRIUS XM	40%	33	—
Other	various	102	223
Starz Group			
Other	various	—	12
		<u>\$1,030</u>	<u>1,136</u>

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

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Interactive Group			
Expedia	\$ 72	(726)	68
Other	(86)	(466)	9
Capital Group			
SIRIUS XM	(28)	—	—
Other	(6)	(64)	(68)
Starz Group			
Other	(10)	(7)	—
	<u>\$(58)</u>	<u>(1,263)</u>	<u>9</u>

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Expedia

Our share of losses of Expedia for the year ended December 31, 2008 includes a \$119 million other than temporary impairment charge. The market value of the Company's investment in Expedia was \$1,781 million and \$570 million at December 31, 2009 and 2008, respectively. Summarized unaudited financial information for Expedia is as follows:

Expedia Consolidated Balance Sheets

	December 31,	
	2009	2008
	amounts in millions	
Current assets	\$1,225	1,199
Property and equipment	237	248
Goodwill	3,604	3,539
Intangible assets	823	833
Other assets	48	75
Total assets	<u>\$5,937</u>	<u>5,894</u>
Current liabilities	\$1,835	1,566
Deferred income taxes	224	190
Long-term debt	895	1,545
Other liabilities	233	212
Noncontrolling interest	67	64
Stockholders' equity	2,683	2,317
Total liabilities and equity	<u>\$5,937</u>	<u>5,894</u>

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Notes to Consolidated Financial Statements (Continued)
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Expedia Consolidated Statements of Operations

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Revenue	\$ 2,955	2,937	2,665
Cost of revenue	(607)	(639)	(565)
Gross profit	2,348	2,298	2,100
Selling, general and administrative expenses	(1,637)	(1,662)	(1,493)
Amortization	(38)	(69)	(78)
Impairment of long-lived assets and other	(102)	(2,996)	—
Operating income (loss)	571	(2,429)	529
Interest expense	(84)	(72)	(53)
Interest income	6	30	39
Other expense, net	(35)	(44)	(18)
Income tax expense	(154)	(6)	(203)
Net earnings (loss)	304	(2,521)	294
Net (earnings) loss attributable to noncontrolling interests	(4)	3	2
Net earnings (loss) attributable to Expedia, Inc.	<u>\$ 300</u>	<u>(2,518)</u>	<u>296</u>

Spin Off Companies from IAC

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

Subsequent to December 31, 2009, Ticketmaster completed a merger with a subsidiary of Live Nation, Inc., and Live Nation, Inc. was renamed Live Nation Entertainment, Inc. (“Live Nation”). Upon completion of the merger, Liberty held an approximate 14.6% ownership interest in Live Nation. Subsequent to the merger, Liberty launched a tender offer for up to 34,200,000, or approximately 20.3%, of the outstanding common shares of Live Nation for \$12.00 per share. Such tender offer is scheduled to expire on March 2, 2010.

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Notes to Consolidated Financial Statements (Continued)

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Sirius XM Radio Inc.

During 2009, Liberty made equity contributions and loans to SIRIUS XM and made open market purchases of SIRIUS XM public debt. On February 17, 2009, Liberty and SIRIUS XM entered into a senior secured loan agreement (the "Senior Loan") whereby Liberty loaned SIRIUS XM \$250 million and made a commitment to loan an additional \$30 million to fund qualifying expenditures by SIRIUS XM (the "Purchase Money Commitment"). In exchange for making the Senior Loan, Liberty received a \$30 million origination fee. Liberty accounted for the origination fee as a discount to the Senior Loan. On March 6, 2009, Liberty (i) purchased \$100 million of a new senior loan facility of a subsidiary of SIRIUS XM ("Subsidiary Senior Loan"), (ii) purchased \$61 million of bank debt of such subsidiary directly from the lending group and (iii) committed to make a loan of \$150 million to such subsidiary in December 2009 ("Subsidiary Commitment"). In addition, Liberty received voting preferred stock of SIRIUS XM (the "SIRIUS XM Preferred Stock"), which has substantially the same rights and preferences as common shareholders of SIRIUS XM, for a cash payment of \$12,500. The SIRIUS XM Preferred Stock is convertible into common stock equal to 40% of fully diluted equity.

Liberty allocated the total consideration paid for the Subsidiary Senior Loan, the Subsidiary Commitment and the SIRIUS XM Preferred Stock to each of the instruments based on the relative fair values of such instruments.

During the second and third quarters of 2009, SIRIUS XM issued new public bonds and used the net proceeds to repay all amounts outstanding under the Senior Loan and the Subsidiary Senior Loan; to replace the Subsidiary Commitment, which was terminated; and to refinance and repay other debt of SIRIUS XM. As Liberty's book basis in the Senior Loan, the Subsidiary Senior Loan and the Subsidiary Commitment were originally recorded at a discount, Liberty recognized an aggregate gain on the debt repayments and commitment cancellation of \$85 million, after eliminating 40% of the gain related to Liberty's ownership in SIRIUS XM.

As of December 31, 2009, Liberty had invested aggregate cash of \$611 million and had received scheduled debt repayments, cash from the SIRIUS XM refinancings and bond sales proceeds totaling \$425 million, resulting in a net cash investment of \$186 million. Such net cash investment has resulted in Liberty owning \$279 million principal amount of SIRIUS XM public bonds, which are accounted for as AFS securities and have a fair market value of \$301 million, and the SIRIUS XM Preferred Stock. In addition, the Purchase Money Commitment has been cancelled.

Based on Liberty's voting rights and its conclusion that the SIRIUS XM Preferred Stock is in-substance common stock, Liberty accounts for its investment in the SIRIUS XM Preferred Stock using the equity method of accounting. Liberty has elected to record its share of earnings/losses for SIRIUS XM on a three-month lag due to timeliness considerations. As of September 30, 2009 SIRIUS XM had total assets and liabilities of \$7,268 million and \$7,261 million, respectively. SIRIUS XM's net loss attributable to common shareholders was \$543 million for the nine months ended September 30, 2009.

As of December 31, 2009, the SIRIUS XM Preferred Stock had a market value of \$1,552 million based on the value of the common stock into which it is convertible.

Liberty's investment in SIRIUS XM has been attributed to the Capital Group.

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December 31, 2009, 2008 and 2007

(9) Financial Instruments

Equity Collars

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

Borrowed Shares

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

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Notes to Consolidated Financial Statements (Continued)
December 31, 2009, 2008 and 2007

The Company's financial instruments are summarized as follows:

<u>Type of financial instrument</u>	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	<u>amounts in millions</u>	
<i>Assets</i>		
Equity collars(1)	\$ 752	2,206
Other	—	93
	<u>752</u>	<u>2,299</u>
Less current portion	<u>(752)</u>	<u>(1,133)</u>
	<u>\$ —</u>	<u>1,166</u>
<i>Liabilities</i>		
Borrowed shares(2)	\$ 851	392
Other	283	350
	<u>1,134</u>	<u>742</u>
Less current portion	<u>(1,002)</u>	<u>(553)</u>
	<u>\$ 132</u>	<u>189</u>

- (1) Represents the Company's Sprint equity collars at December 31, 2009. The Company has made borrowings against substantially all of the future proceeds to be received by the Company upon expiration of these equity collars. See note 11.
- (2) Borrowed shares are as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	<u>amounts in millions</u>	
Time Warner	\$ 88	91
Time Warner Cable	31	—
Sprint	125	17
Motorola	403	230
CenturyTel	84	16
Other	<u>120</u>	<u>38</u>
	<u>\$851</u>	<u>392</u>

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Notes to Consolidated Financial Statements (Continued)

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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:

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Non-strategic Securities	\$1,074	(2,882)	—
Exchangeable senior debentures	(856)	1,509	541
Equity collars	(132)	870	527
Borrowed shares	(301)	791	298
Other derivatives	60	(548)	(97)
	<u>\$ (155)</u>	<u>(260)</u>	<u>1,269</u>

(10) Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill are as follows:

	<u>QVC</u>	<u>Starz Entertainment</u>	<u>Starz Media</u>	<u>Other</u>	<u>Total</u>
	amounts in millions				
Balance at January 1, 2008	\$5,419	1,371	194	770	7,754
Acquisitions	—	—	—	62	62
Impairment(1)	—	(1,239)	(186)	(115)	(1,540)
Foreign currency translation adjustments	(54)	—	(8)	—	(62)
Other	(2)	—	—	(11)	(13)
Balance at December 31, 2008	5,363	132	—	706	6,201
Impairment	—	—	—	(3)	(3)
Foreign currency translation adjustments	20	—	—	—	20
Other	12	—	—	(5)	7
Balance at December 31, 2009	<u>\$5,395</u>	<u>132</u>	<u>—</u>	<u>698</u>	<u>6,225</u>

As of December 31, 2009, the accumulated impairment losses for Starz Entertainment, Starz Media and Other were \$2,592 million, \$368 million and \$119 million, respectively.

(1) Liberty performs its annual evaluation of the recoverability of its goodwill and other indefinite lived intangible assets each December. In its Step 1 Test in 2008, Liberty estimated the fair value of each of its reporting units using a combination of discounted cash flows and market based valuation methodologies. For those reporting units whose estimated fair value exceeded the carrying value, no further testwork was required and no impairment was recorded. For those reporting units whose carrying value exceeded the fair value, a Step 2 Test was performed. In the Step 2 Test, the fair value of the reporting unit was allocated to all of the assets and liabilities of the reporting unit with any residual value being allocated to goodwill. The difference between such allocated amount and the carrying value of the goodwill is recorded as an impairment charge. In

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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connection with its analysis, Liberty recorded the following impairment charges (amounts in millions):

Starz Entertainment	\$1,239
Starz Media	192
Other	138
	<u>\$1,569</u>

Liberty believes that the foregoing impairment charges, which also include \$29 million of impairments of intangible assets other than goodwill, are due in large part to the 2008 economic crisis and the downward impact it had on perceptions of future growth prospects and valuation multiples for its reporting units.

While Starz Entertainment had increasing revenue and Adjusted OIBDA, as defined in note 20, in recent years, it failed the Step 1 Test due to the aforementioned lower future growth expectations and the compression of market multiples. In performing the Step 2 Test, Starz Entertainment allocated a significant portion of its estimated fair value to amortizable intangibles such as affiliation agreements and trade names which have little or no carrying value. The resulting residual goodwill was significantly less than its carrying value. Accordingly, Starz Entertainment recorded an impairment charge. The impairment loss for Starz Media is due primarily to a lowered long-term forecast for its home video distribution reporting unit resulting from the 2008 economic conditions.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are comprised of the following:

	December 31, 2009			December 31, 2008		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
			amounts in millions			
Distribution rights	\$2,325	(1,069)	1,256	2,301	(889)	1,412
Customer relationships	2,650	(1,181)	1,469	2,640	(974)	1,666
Other	1,051	(749)	302	916	(638)	278
Total	<u>\$6,026</u>	<u>(2,999)</u>	<u>3,027</u>	<u>5,857</u>	<u>(2,501)</u>	<u>3,356</u>

Distribution rights and customer relationships are amortized primarily over 14 years and 10-14 years, respectively. Amortization expense was \$477 million, \$497 million and \$501 million for the years ended December 31, 2009, 2008 and 2007, respectively. Based on its amortizable intangible assets

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Notes to Consolidated Financial Statements (Continued)

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as of December 31, 2009, Liberty expects that amortization expense will be as follows for the next five years (amounts in millions):

2010	\$493
2011	\$448
2012	\$409
2013	\$371
2014	\$358

(11) Long-Term Debt

Debt is summarized as follows:

	Outstanding principal December 31, 2009	Carrying value December 31,	
		2009	2008
	amounts in millions		
Capital Group			
Exchangeable senior debentures			
3.125% Exchangeable Senior Debentures due 2023	\$ 1,138	1,157	918
4% Exchangeable Senior Debentures due 2029	469	243	256
3.75% Exchangeable Senior Debentures due 2030	460	237	241
3.5% Exchangeable Senior Debentures due 2031	494	297	138
Liberty bank facility	750	750	750
Liberty derivative loan	838	838	625
Subsidiary debt	131	131	135
Total attributed Capital Group debt	<u>4,280</u>	<u>3,653</u>	<u>3,063</u>
Interactive Group			
Senior notes and debentures			
Senior Notes repaid in 2009	—	—	117
5.7% Senior Notes due 2013	803	801	801
8.5% Senior Debentures due 2029	287	284	284
8.25% Senior Debentures due 2030	504	501	501
3.25% Exchangeable Senior Debentures due 2031	541	320	138
QVC 7.5% Senior Secured Notes due 2019	1,000	983	—
QVC bank credit facilities	2,996	2,996	5,230
Other debt	188	188	60
Total attributed Interactive Group debt	<u>6,319</u>	<u>6,073</u>	<u>7,131</u>
Starz Group			
Subsidiary debt	48	48	52
Total consolidated Liberty debt	<u>\$10,647</u>	9,774	10,246
Less current portion		<u>(1,932)</u>	<u>(616)</u>
Total long-term debt		<u>\$7,842</u>	<u>9,630</u>

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Notes to Consolidated Financial Statements (Continued)

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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 19.136 shares of Time Warner common stock, 4.8033 shares of Time Warner Cable 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, 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 .786 shares of CenturyTel common stock. Liberty may, at its election, pay the exchange value in cash, Sprint and CenturyTel 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 CenturyTel common stock. Liberty may, at its election, pay the exchange value in cash, Sprint and CenturyTel common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash equal to the face amount of the debentures plus accrued interest.

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

Each \$1,000 debenture of Liberty's 3.25% Exchangeable Senior Debentures (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 or otherwise disposed of a portion of its shares of Motorola and CBS common stock which underlie the Motorola Exchangeables and Viacom Exchangeables, respectively. 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 would be redeemed for cash as a current liability. Such amount aggregated \$400 million at December 31, 2009. 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.

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During the second quarter of 2009, Liberty used cash for the voluntary early retirement of \$750 million face amount of its Exchangeable Senior Debentures attributable to Liberty Capital. Liberty paid \$187.5 million (of which \$37.5 million was existing cash collateral) to retire \$400 million face amount of its 4% Exchangeable Senior Debentures due 2029 and \$350 million face amount of its 3.75% Exchangeable Senior Debentures due 2030. Liberty also terminated swap arrangements that reference the 4% and 3.75% Exchangeable Senior Debentures with no additional payment. The total cash used to retire the \$750 million face amount of Exchangeable Senior Debentures and swaps referencing these Exchangeable Senior Debentures was \$503 million, of which \$315 million was paid to settle swap arrangements that were settled in November 2008. Liberty also purchased and retired \$126 million principal amount of its 3.125% Exchangeable Senior Debentures for aggregate cash payments of \$106 million.

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

Liberty Bank Facility

Represents borrowings from a financial institution to be invested by Liberty in a portfolio of selected debt and mezzanine-level instruments of companies in the telecommunications, media and technology sectors. Due to the investment restrictions contained in the agreements related to these borrowings, the uninvested cash balance of \$465 million is included in other assets in the accompanying consolidated balance sheet at December 31, 2009. Borrowings accrue interest at LIBOR plus an applicable margin (.82% at December 31, 2009).

Liberty Derivative Loan

During the first quarter of 2009, Liberty made additional net borrowings of \$1,638 million against the present value of its Sprint derivatives. Such debt accrues interest at LIBOR plus an applicable margin (.74% at December 31, 2009), is due when the derivatives expire in 2010 and is expected to be retired by the offset of debt left against amounts to be received by Liberty upon expiration of the derivatives. In this regard, in the second quarter of 2009, Liberty repaid \$333 million of the Sprint derivative loan with cash on hand. In addition, in the third quarter of 2009, Liberty repaid \$775 million of the Sprint derivative loans. In the third quarter of 2009, certain Sprint derivatives expired, and Liberty received cash proceeds of \$1,027 million. In the fourth quarter of 2009, Liberty voluntarily unwound a derivative collar, repaid \$317 million of the derivative loan and received cash proceeds of \$286 million upon the unwind.

Senior Notes and Debentures

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

The Senior Notes and Senior Debentures are stated net of an aggregate unamortized discount of \$8 million and \$9 million at December 31, 2009 and 2008, respectively. Such discount is being amortized to interest expense in the accompanying consolidated statements of operations.

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Notes to Consolidated Financial Statements (Continued)

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QVC 7.5% Senior Secured Notes due 2019

During the third quarter of 2009, QVC issued \$1.0 billion principal amount of 7.5% Senior Secured Notes due 2019 (the "QVC Notes") at an issue price of 98.278%. QVC used the net proceeds from such offering to fund the purchase and cancellation of outstanding term loans under QVC's senior secured credit facilities that mature in 2014.

QVC Bank Credit Facilities

Effective June 16, 2009, QVC amended each of its bank credit agreements (the "Amended Credit Agreements"). Concurrent with the execution of the Amended Credit Agreements, QVC retired \$750 million of loans at par and cancelled another \$19 million of unfunded commitments at no cost. As noted above, QVC purchased and cancelled outstanding term loans under its Amended Credit Agreements with proceeds from the issuance of the QVC Notes.

In connection with the execution of the Amended Credit Agreements, those lenders consenting to the amendments, which held loans in the aggregate principal amount of approximately \$4.23 billion, received certain modified loan terms, including (i) adjusted interest rate margins of 350 to 550 basis points depending on the tranche maturity, (ii) reductions in QVC's maximum leverage ratio, (iii) additional restrictions on creating additional indebtedness and (iv) mandatory prepayment in the event of certain asset sales by QVC. Loans held by the non-consenting lenders, in the aggregate principal amount of approximately \$252 million, will continue to receive an interest rate margin of up to 100 basis points with their loans maturing in 2011. All other terms of the Amended Credit Agreements will apply to these loans.

Cash used to retire the \$750 million of loans came from a combination of \$250 million in cash from QVC and \$250 million in the form of an intergroup loan from each of the Starz Group and the Capital Group to the Interactive Group. Such intergroup loans (i) are secured by various public stocks attributed to the Interactive Group, (ii) accrue interest quarterly at the rate of LIBOR plus 500 basis points and (iii) are due June 16, 2010. As of December 31, 2009, the Interactive Group had repaid \$97 million of the intergroup loans to each of the Starz Group and the Capital Group.

QVC was in compliance with all of its debt covenants at December 31, 2009.

QVC Interest Rate Swap Arrangements

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

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

During the third quarter of 2009, QVC entered into seven new forward interest rate swap arrangements with an aggregate notional amount of \$1.75 billion. Such arrangements provide for payments beginning in March 2011 and extending to March 2013. QVC will make fixed payments at rates ranging from 2.98% to 3.67% and receive variable payments at 3 month LIBOR. These swap arrangements are not accounted for as cash flow hedges.

Other Subsidiary Debt

Other subsidiary debt at December 31, 2009 is comprised of capitalized satellite transponder lease obligations and bank debt of certain subsidiaries.

Five Year Maturities

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

2010	\$1,536
2011	\$ 728
2012	\$1,166
2013	\$1,217
2014	\$1,080

Fair Value of Debt

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

	December 31,	
	2009	2008
	amounts in millions	
Fixed rate senior notes	\$774	618
Senior debentures	\$722	501

The fair value of the QVC Notes was approximately \$1,016 million as of December 31, 2009. Due to its variable rate nature, Liberty believes that the carrying amount of its subsidiary debt and other parent debt, approximated fair value at December 31, 2009.

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(12) Income Taxes

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2009	2008	2007
	amounts in millions		
Current:			
Federal	\$ (19)	(143)	(19)
State and local	(36)	(18)	(81)
Foreign	(87)	(94)	(93)
	<u>(142)</u>	<u>(255)</u>	<u>(193)</u>
Deferred:			
Federal	108	858	(153)
State and local	47	129	32
Foreign	3	10	1
	<u>158</u>	<u>997</u>	<u>(120)</u>
Income tax benefit (expense)	<u>\$ 16</u>	<u>742</u>	<u>(313)</u>

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,		
	2009	2008	2007
	amounts in millions		
Computed expected tax benefit (expense)	\$(217)	1,061	(795)
Nontaxable exchange of investments for subsidiaries and cash	—	—	541
State and local income taxes, net of federal income taxes	(4)	70	(35)
Foreign taxes, net of foreign tax credits	(3)	35	(1)
Change in valuation allowance affecting tax expense	9	(5)	(5)
Impairment of goodwill not deductible for tax purposes	—	(462)	(11)
Nontaxable gains (losses) related to the Company's common stock	21	(64)	—
Recognition of tax benefits (expense) not previously recognized, net	201	75	(6)
Expenses not deductible for income tax purposes	(16)	—	(3)
Excess tax deductions over book expense	19	—	—
Other, net	6	32	2
Income tax benefit (expense)	<u>\$ 16</u>	<u>742</u>	<u>(313)</u>

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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:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	<u>amounts in millions</u>	
Deferred tax assets:		
Net operating and capital loss carryforwards	\$ 174	336
Accrued stock compensation	114	89
Other accrued liabilities	226	259
Deferred revenue	420	370
Other future deductible amounts	42	140
Deferred tax assets	976	1,194
Valuation allowance	(17)	(23)
Net deferred tax assets	<u>959</u>	<u>1,171</u>
Deferred tax liabilities:		
Investments	1,536	1,227
Intangible assets	2,021	2,094
Discount on exchangeable debentures	963	1,652
Deferred gain on debt retirements	321	—
Other	40	114
Deferred tax liabilities	<u>4,881</u>	<u>5,087</u>
Net deferred tax liabilities	<u>\$3,922</u>	<u>3,916</u>

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

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	<u>amounts in millions</u>	
Current deferred tax liabilities	\$1,247	773
Long-term deferred tax liabilities	2,675	3,143
Net deferred tax liabilities	<u>\$3,922</u>	<u>3,916</u>

The Company's valuation allowance decreased \$6 million in 2009. Such decrease is due to a \$9 million decrease that affected tax expense and a \$3 million increase for acquisitions.

At December 31, 2009, Liberty had net operating and capital loss carryforwards for income tax purposes aggregating approximately \$205 million which, if not utilized to reduce taxable income in future periods, will expire as follows: 2011: \$89 million; 2013: \$1 million; 2014: \$1 million and beyond 2014: \$114 million. The foregoing net operating and capital loss are subject to certain limitations and may not be currently utilized.

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A reconciliation of unrecognized tax benefits is as follows:

	Years ended December 31,	
	2009	2008
	amounts in millions	
Balance at beginning of year	\$ 396	462
Additions based on tax positions related to the current year . . .	22	28
Additions for tax positions of prior years	26	7
Reductions for tax positions of prior years	(229)	(78)
Lapse of statute and settlements	(10)	(23)
Balance at end of year	\$ 205	396

As of December 31, 2009, the Company had recorded tax reserves of \$205 million related to unrecognized tax benefits for uncertain tax positions. If such tax benefits were to be recognized for financial statement purposes, \$138 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, 2009, the Company's 2001 through 2005 tax years are closed for federal income tax purposes, and the IRS has completed its examination of the Company's 2006 through 2008 tax years. The Company's tax loss carryforwards from its 2004 through 2008 tax years are still subject to adjustment. The Company's 2009 tax year is being examined currently as part of the IRS's Compliance Assurance Process ("CAP") program. The states of California and New York are currently examining the Company's 2003 through 2005 tax years. The Company is currently under audit in the UK, Japan, and Germany. It is reasonably possible that the amount of the Company's gross unrecognized tax benefits may increase within the next twelve months by up to \$10 million.

As of December 31, 2009, the Company had recorded \$33 million of accrued interest and penalties related to uncertain tax positions.

(13) 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, 2009, no shares of preferred stock were issued.

Common Stock

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

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As of December 31, 2009, there were 5.1 million shares of Series A Liberty Capital common stock, respectively, reserved for issuance under exercise privileges of outstanding stock options.

As of December 31, 2009, there were 40.8 million and 7.5 million shares of Series A and Series B Liberty Interactive common stock, respectively, reserved for issuance under exercise privileges of outstanding stock options.

As of December 31, 2009, there were 2.6 million and 0.6 million shares of Series A and Series B Liberty Starz common stock, respectively, reserved for issuance under exercise privileges of outstanding stock options.

In addition to the Series A and Series B Liberty Capital common stock, the Series A and Series B Liberty Interactive common stock and the Series A and Series B Liberty Starz common stock, there are 2.0 billion, 4.0 billion and 4.0 billion shares of Series C Liberty Capital, Series C Liberty Interactive and Series C Liberty Starz common stock, respectively, authorized for issuance. As of December 31, 2009, no shares of any Series C common stock were issued or outstanding.

Purchases of Common Stock

During the year ended December 31, 2007, the Company repurchased 56.3 million shares of Series A Liberty Interactive common stock for aggregate cash consideration of \$1,224 million. Liberty also repurchased 11.5 million shares of Series A Liberty Capital common stock for aggregate cash consideration of \$1,305 million (including transaction costs).

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

As described in note 2, 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.

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

During the year ended December 31, 2007, the Company sold put options on Series A Liberty Capital common stock and Series A Liberty Interactive common stock for aggregate net cash proceeds of \$34 million.

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

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During the year ended December 31, 2009, the Company settled put options on Series A Liberty Capital common stock for cash payments of \$5 million. As of December 31, 2009, put options with respect to 12.6 million shares of LINTA with a weighted average put price of \$17.26 remained outstanding. Such put options expire on or before November 30, 2010.

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

(14) 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.

Chief Executive Officer Investment in Subsidiary

In the fourth quarter of 2009, the CEO invested \$2 million cash in Lockerz, LLC, a subsidiary of Liberty, in exchange for a 28.6% ownership interest.

Chairman's Employment Agreement

On December 12, 2008, the Committee determined to modify its employment arrangements with its Chairman of the Board, to permit the Chairman to begin receiving payments in 2009 in satisfaction

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

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

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

Stock Purchases from Chairman

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

(15) Stock Options and Stock Appreciation Rights

Liberty—Incentive Plans

Pursuant to the Liberty Media Corporation 2000 Incentive Plan, as amended from time to time (the "2000 Plan"), the Company has granted to certain of its employees stock options and SARs (collectively, "Awards") to purchase shares of Series A and Series B Liberty Capital, Liberty Entertainment and Liberty Interactive common stock. The 2000 Plan provides for Awards to be made in respect of a maximum of 69.5 million shares of Liberty common stock. On May 1, 2007, stockholders of the Company approved the Liberty Media Corporation 2007 Incentive Plan (the "2007 Plan"). The 2007 Plan provides for Awards to be made in respect of a maximum of 39.3 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 Media Corporation 2002 Nonemployee Director Incentive Plan, as amended from time to time (the "NDIP"), the Liberty Board of Directors has the full power and authority to grant eligible nonemployee directors stock options, SARs, stock options with tandem SARs, and restricted stock.

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Liberty—Grants

Awards granted in 2009, 2008 and 2007 pursuant to the 2000 Plan, the 2007 Plan and the NDIP are summarized as follows:

	Year ended December 31,					
	2009		2008		2007	
	Options granted	Weighted average grant-date fair value	Options granted	Weighted average grant-date fair value	Options granted	Weighted average grant-date fair value
Series A Liberty Interactive	17,519,391	\$ 3.57	9,405,564	\$2.30	6,093,384	\$ 5.88
Series A Liberty Capital	1,649,511	\$12.17	1,285,787	\$1.19	739,681	\$28.78
Series A Liberty Starz	2,083,429	\$14.33	5,261,721	\$5.79	N/A	N/A

In addition, in April 2009, Liberty completed an exchange offer pursuant to which eligible employees of QVC and BuySeasons were offered the opportunity to exchange all (but not less than all) of their outstanding stock options to purchase shares of Series A Liberty Interactive common stock (“LINTA”) with an exercise price greater than \$7.00 for new options to acquire shares of LINTA. Eligible option holders tendered an aggregate of 11,311,787 shares of LINTA. In exchange, Liberty granted the tendering option holders an aggregate of 2,828,022 options to purchase shares of LINTA with an exercise price of \$3.41 per share and 2,828,022 options to purchase shares of LINTA with an exercise price of \$6.00 per share. The difference between the fair value of the options granted in the exchange offer and the fair value of the options tendered, which aggregated \$3 million, will be recognized as stock compensation expense over the vesting term of the options granted.

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. 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.

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The following table presents the volatilities used by Liberty in the Black-Scholes Model for the 2009, 2008 and 2007 grants.

	<u>Volatility</u>
<i>2009 grants</i>	
Liberty Capital options	29.3%-47.9%
Liberty Interactive options	36.0%-46.4%
Liberty Starz options	29.3%-33.6%
<i>2008 grants</i>	
Liberty Capital options	19.7%-29.4%
Liberty Interactive options	25.3%-36.5%
Liberty Starz options	19.7%-29.4%
<i>2007 grants</i>	
Liberty Capital options	17.5%-19.7%
Liberty Interactive options	20.8%-25.3%

Liberty—Outstanding Awards

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

	<u>Series A</u>					
	<u>Liberty Capital</u>	<u>WAEP</u>	<u>Liberty Interactive</u>	<u>WAEP</u>	<u>Liberty Starz</u>	<u>WAEP</u>
	numbers of options in thousands					
Outstanding at January 1, 2009	4,031	\$10.83	31,361	\$16.48	15,978	\$19.77
Granted	1,650	\$23.26	23,175	\$ 7.18	2,083	\$45.96
Exercised	(592)	\$13.55	(382)	\$ 3.59	(5,776)	\$19.84
Redeemed for LEI options	—		—		(9,633)	\$19.95
Forfeited/cancelled/exchanged	(20)	\$37.37	(13,322)	\$16.53	(57)	\$38.75
Outstanding at December 31, 2009	<u>5,069</u>	\$14.45	<u>40,832</u>	\$11.30	<u>2,595</u>	\$43.13
Exercisable at December 31, 2009	<u>2,190</u>	\$12.20	<u>15,019</u>	\$17.88	<u>566</u>	\$29.51

There were no grants or exercises of any of the Company’s Series B options during 2009, except that 1,408,000 options for Series B Liberty Capital common stock with an exercise price of \$15.20 were exercised.

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The following table provides additional information about outstanding options to purchase Liberty common stock at December 31, 2009.

	<u>No. of outstanding options (000's)</u>	<u>WAEP of outstanding options</u>	<u>Weighted average remaining life</u>	<u>Aggregate intrinsic value (000's)</u>	<u>No. of exercisable options (000's)</u>	<u>WAEP of exercisable options</u>	<u>Aggregate intrinsic value (000's)</u>
Series A Capital	5,069	\$14.45	5.1 years	\$ 47,981	2,190	\$12.20	\$25,757
Series B Capital	—				—		
Series A Interactive	40,832	\$11.30	5.2 years	\$117,900	15,019	\$17.88	\$17,950
Series B Interactive	7,491	\$23.41	1.4 years	\$ —	7,491	\$23.41	\$ —
Series A Starz	2,595	\$43.13	7.6 Years	\$ 18,597	566	\$29.51	\$ 9,508
Series B Starz	599	\$31.33	1.4 Years	\$ 9,305	599	\$31.33	\$ 9,305

Liberty—Exercises

The aggregate intrinsic value of all options exercised during the years ended December 31, 2009, 2008 and 2007 was \$68 million, \$3 million and \$16 million, respectively.

Liberty—Restricted Stock

The following table presents the number and weighted average grant-date fair value (“WAFV”) of unvested restricted shares of Liberty common stock held by certain directors, officers and employees of the Company as of December 31, 2009 (numbers of shares in thousands).

	<u>Number of shares</u>	<u>WAFV</u>
Series A Liberty Capital	340	\$ 7.40
Series A Liberty Interactive	2,437	\$ 4.79
Series A Liberty Starz	241	\$39.42

The aggregate fair value of all restricted shares of Liberty common stock that vested during the years ended December 31, 2009, 2008 and 2007 was \$14 million, \$4 million and \$28 million, respectively.

Starz Entertainment

Starz Entertainment has fully vested outstanding Phantom Stock Appreciation Rights (“PSARs”) held by its founder. Effective September 30, 2009, the founder elected to exercise all of his remaining PSARs. The amount to be paid to the founder for his PSARs is to be determined by a valuation process. Starz Entertainment has accrued \$116 million as of December 31, 2009 based upon Starz Entertainment’s best estimate of the amount to be paid. Such amount is payable in cash, Liberty common stock or a combination thereof.

Other

Certain of the Company’s other subsidiaries have stock based compensation plans under which employees and non-employees are granted options or similar stock based awards. Awards made under

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these plans vest and become exercisable over various terms. The awards and compensation recorded, if any, under these plans is not significant to Liberty.

(16) Employee Benefit Plans

Liberty is the sponsor of the Liberty Media 401(k) Savings Plan (the “Liberty 401(k) Plan”), which provides its employees and the employees of certain of its subsidiaries an opportunity for ownership in the Company and creates a retirement fund. The Liberty 401(k) Plan provides for employees to make contributions to a trust for investment in Liberty common stock, as well as several mutual funds. The Company and its subsidiaries make matching contributions to the Liberty 401(k) Plan based on a percentage of the amount contributed by employees. In addition, certain of the Company’s subsidiaries have similar employee benefit plans. Employer cash contributions to all plans aggregated \$31 million, \$31 million and \$26 million for the years ended December 31, 2009, 2008 and 2007, respectively.

(17) 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:

	<u>Foreign currency translation adjustments</u>	<u>Unrealized holding gains (losses) on securities</u>	<u>Share of AOCI of equity affiliates</u>	<u>Other</u>	<u>AOCI of discontinued operations</u>	<u>AOCI</u>
	amounts in millions					
Balance at January 1, 2007	\$169	2,878	1	—	2,904	5,952
Other comprehensive earnings (loss) attributable to Liberty Media Corporation stockholders	<u>95</u>	<u>(1,614)</u>	<u>3</u>	<u>(46)</u>	<u>(317)</u>	<u>(1,879)</u>
Balance at December 31, 2007	264	1,264	4	(46)	2,587	4,073
Other comprehensive loss attributable to Liberty Media Corporation stockholders	<u>(46)</u>	<u>(227)</u>	<u>(10)</u>	<u>(62)</u>	<u>(2,618)</u>	<u>(2,963)</u>
Cumulative effect of accounting change	<u>—</u>	<u>(1,040)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,040)</u>
Balance at December 31, 2008	218	(3)	(6)	(108)	(31)	70
Other comprehensive earnings (loss) attributable to Liberty Media Corporation stockholders	<u>10</u>	<u>203</u>	<u>(5)</u>	<u>43</u>	<u>31</u>	<u>282</u>
Balance at December 31, 2009	<u>\$228</u>	<u>200</u>	<u>(11)</u>	<u>(65)</u>	<u>—</u>	<u>352</u>

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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).

	<u>Before-tax amount</u>	<u>Tax (expense) benefit</u>	<u>Net-of-tax amount</u>
	<u>amounts in millions</u>		
<i>Year ended December 31, 2009:</i>			
Foreign currency translation adjustments	\$ 5	(2)	3
Unrealized holding gains on securities arising during period	371	(141)	230
Reclassification adjustment for holding gains realized in net loss	(44)	17	(27)
Share of other comprehensive loss of equity affiliates	(8)	3	(5)
Other	69	(26)	43
Other comprehensive earnings from discontinued operations	50	(19)	31
Other comprehensive earnings	<u>\$ 443</u>	<u>(168)</u>	<u>275</u>
<i>Year ended December 31, 2008:</i>			
Foreign currency translation adjustments	\$ (31)	12	(19)
Unrealized holding losses on securities arising during period	(806)	306	(500)
Reclassification adjustment for holding losses realized in net earnings . .	440	(167)	273
Share of other comprehensive loss of equity affiliates	(16)	6	(10)
Other	(100)	38	(62)
Other comprehensive loss from discontinued operations	(4,223)	1,605	(2,618)
Other comprehensive loss	<u>\$(4,736)</u>	<u>1,800</u>	<u>(2,936)</u>
<i>Year ended December 31, 2007:</i>			
Foreign currency translation adjustments	\$ 163	(62)	101
Unrealized holding losses on securities arising during period	(1,998)	759	(1,239)
Reclassification adjustment for holding gains realized in net earnings . .	(605)	230	(375)
Share of other comprehensive earnings of equity affiliates	5	(2)	3
Other	(74)	28	(46)
Other comprehensive loss from discontinued operations	(511)	194	(317)
Other comprehensive loss	<u>\$(3,020)</u>	<u>1,147</u>	<u>(1,873)</u>

(18) Transactions with Related Parties

During the year ended December 31, 2009 and the period from February 27, 2008 to December 31, 2008, subsidiaries of Liberty recognized aggregate revenue of \$303 million and \$264 million, respectively, from DIRECTV for distribution of their programming. In addition, subsidiaries of Liberty made aggregate payments of \$40 million and \$31 million in 2009 and 2008, respectively, to DIRECTV for carriage and marketing.

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

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

(19) Commitments and Contingencies

Film Rights

Starz Entertainment, a wholly-owned subsidiary of Liberty, provides premium video programming distributed by cable operators, direct-to-home satellite providers, telephone companies, other distributors and the Internet throughout the United States. Starz Entertainment has entered into agreements with a number of motion picture producers which obligate Starz Entertainment to pay fees (“Programming Fees”) for the rights to exhibit certain films that are released by these producers. The unpaid balance of Programming Fees for films that were available for exhibition by Starz Entertainment at December 31, 2009 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2009 is payable as follows: \$62 million in 2010 and \$7 million in 2011.

Starz Entertainment has also contracted to pay Programming Fees for films that have been released theatrically, but are not available for exhibition by Starz Entertainment until some future date. These amounts have not been accrued at December 31, 2009. In addition, Starz Entertainment has agreed to pay Sony Pictures Entertainment (“Sony”) (i) a total of \$190 million in four equal annual installments beginning in 2011 for a contract extension through 2013, and (ii) a total of \$120 million in three equal annual installments beginning in 2015 for a new output agreement. Starz Entertainment’s estimate of amounts payable under these agreements is as follows: \$449 million in 2010; \$125 million in 2011; \$94 million in 2012; \$84 million in 2013; \$67 million in 2014 and \$145 million thereafter.

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

Guarantees

Liberty guarantees Starz Entertainment’s obligations under certain of its studio output agreements. At December 31, 2009, Liberty’s guarantees for obligations for films released by such date aggregated \$656 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, Starz Entertainment has recognized the liability for a portion of its obligations under the output agreements. As this represents a direct commitment of Starz Entertainment, a consolidated subsidiary of Liberty, Liberty has not recorded a separate indirect liability for its guarantee of these obligations.

In connection with agreements for the sale of assets by Liberty or its subsidiaries, Liberty may retain liabilities that relate to events occurring prior to its sale, such as tax, environmental, litigation and employment matters. Liberty generally indemnifies the purchaser in the event that a third party

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

asserts a claim against the purchaser that relates to a liability retained by Liberty. These types of indemnification obligations may extend for a number of years. Liberty is 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, Liberty has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

Employment Contracts

The Atlanta Braves have entered into long-term employment contracts with certain of their players and coaches whereby such individuals' compensation is guaranteed. Amounts due under guaranteed contracts as of December 31, 2009 aggregated \$199 million, which is payable as follows: \$80 million in 2010, \$67 million in 2011, \$50 million in 2012 and \$2 million in 2013. In addition to the foregoing amounts, certain players and coaches may earn incentive compensation under the terms of their employment contracts.

Operating Leases

Liberty leases business offices, has entered into satellite transponder lease agreements and uses certain equipment under lease arrangements. Rental expense under such arrangements amounted to \$53 million, \$50 million and \$44 million for the years ended December 31, 2009, 2008 and 2007, respectively.

A summary of future minimum lease payments under noncancelable operating leases as of December 31, 2009 follows (amounts in millions):

Years ending December 31:	
2010	\$46
2011	\$40
2012	\$31
2013	\$28
2014	\$21
Thereafter	\$62

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 2009.

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.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

Other

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

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

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

(20) Information About Liberty's Operating Segments

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

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

Liberty defines Adjusted OIBDA as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock-based compensation). Liberty believes this measure is an important indicator of the operational strength and performance of its businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

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, 2009, Liberty has identified the following businesses as its reportable segments:

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

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

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

Performance Measures

	Years ended December 31,					
	2009		2008		2007	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
	amounts in millions					
Interactive Group						
QVC	\$ 7,374	1,565	7,303	1,502	7,397	1,652
Corporate and other	931	89	776	53	405	32
	<u>8,305</u>	<u>1,654</u>	<u>8,079</u>	<u>1,555</u>	<u>7,802</u>	<u>1,684</u>
Starz Group						
Starz Entertainment	1,193	384	1,111	301	1,066	264
Corporate and other	11	(10)	13	(11)	25	(5)
	<u>1,204</u>	<u>374</u>	<u>1,124</u>	<u>290</u>	<u>1,091</u>	<u>259</u>
Capital Group						
Starz Media	364	(93)	321	(189)	254	(143)
Corporate and other	285	(82)	293	(108)	231	(67)
	<u>649</u>	<u>(175)</u>	<u>614</u>	<u>(297)</u>	<u>485</u>	<u>(210)</u>
Consolidated Liberty	<u>\$10,158</u>	<u>1,853</u>	<u>9,817</u>	<u>1,548</u>	<u>9,378</u>	<u>1,733</u>

Other Information

	December 31,					
	2009			2008		
	Total assets	Investments in affiliates	Capital expenditures	Total assets	Investments in affiliates	Capital expenditures
	amounts in millions					
Interactive Group						
QVC	\$14,751	2	181	21,567	8	144
Corporate and other	2,592	893	27	3,755	893	22
Intra-group eliminations	—	—	—	(7,835)	—	—
	<u>17,343</u>	<u>895</u>	<u>208</u>	<u>17,487</u>	<u>901</u>	<u>166</u>
Starz Group						
Starz Entertainment	1,607	—	10	1,462	—	7
Corporate and other	591	—	—	14,890	12	—
	<u>2,198</u>	<u>—</u>	<u>10</u>	<u>16,352</u>	<u>12</u>	<u>7</u>
Capital Group						
Starz Media	610	—	2	654	—	3
Corporate and other	8,763	135	44	7,707	223	26
	<u>9,373</u>	<u>135</u>	<u>46</u>	<u>8,361</u>	<u>223</u>	<u>29</u>
Inter-group eliminations	<u>(283)</u>	<u>—</u>	<u>—</u>	<u>(297)</u>	<u>—</u>	<u>—</u>
Consolidated Liberty	<u>\$28,631</u>	<u>1,030</u>	<u>264</u>	<u>41,903</u>	<u>1,136</u>	<u>202</u>

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

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

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Consolidated segment Adjusted OIBDA	\$1,853	1,548	1,733
Stock-based compensation	(128)	(49)	(89)
Depreciation and amortization	(666)	(688)	(663)
Impairment of long-lived assets	(9)	(1,569)	(223)
Interest expense	(628)	(667)	(641)
Share of earnings (losses) of affiliates	(58)	(1,263)	9
Realized and unrealized gains (losses) on derivative instruments, net	(155)	(260)	1,269
Gains on dispositions, net	284	15	646
Other than temporary declines in fair value of investments	(9)	(441)	(33)
Other, net	<u>137</u>	<u>343</u>	<u>264</u>
Earnings (loss) from continuing operations before income taxes	<u>\$ 621</u>	<u>(3,031)</u>	<u>2,272</u>

Revenue by Geographic Area

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

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
United States	\$ 7,662	7,315	7,138
Germany	944	956	870
Other foreign countries	<u>1,552</u>	<u>1,546</u>	<u>1,370</u>
Consolidated Liberty	<u>\$10,158</u>	<u>9,817</u>	<u>9,378</u>

Long-lived Assets by Geographic Area

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	amounts in millions	
United States	\$ 761	769
Germany	251	269
Other foreign countries	<u>293</u>	<u>290</u>
Consolidated Liberty	<u>\$1,305</u>	<u>1,328</u>

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

(21) Quarterly Financial Information (Unaudited)

	<u>1st</u> <u>Quarter</u>	<u>2nd</u> <u>Quarter</u>	<u>3rd</u> <u>Quarter</u>	<u>4th</u> <u>Quarter</u>
	<u>amounts in millions,</u> <u>except per share amounts</u>			
<i>2009:</i>				
Revenue	\$2,253	2,434	2,302	3,169
Operating income	\$ 212	322	167	349
Earnings (loss) from continuing operations	\$ (148)	396	(100)	489
Net earnings (loss) attributable to Liberty Media Corporation stockholders:				
Series A and Series B Liberty Capital common stock	\$ (160)	201	(132)	218
Series A and Series B Liberty Starz common stock	\$ 81	149	2	5,845
Series A and Series B Liberty Interactive common stock	\$ (57)	128	(6)	193
Basic earnings (loss) from continuing operations attributable to Liberty Media Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	\$ (1.67)	2.09	(1.38)	2.27
Series A and Series B Liberty Starz common stock	\$.12	.11	.06	.22
Series A and Series B Liberty Interactive common stock	\$ (.10)	.22	(.01)	.32
Diluted earnings (loss) from continuing operations attributable to Liberty Media Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	\$ (1.67)	2.07	(1.38)	2.22
Series A and Series B Liberty Starz common stock	\$.12	.11	.06	.21
Series A and Series B Liberty Interactive common stock	\$ (.10)	.21	(.01)	.32
Basic net earnings (loss) attributable to Liberty Media Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	\$ (1.67)	2.09	(1.38)	2.27
Series A and Series B Liberty Starz common stock	\$.16	.29	—	19.42
Series A and Series B Liberty Interactive common stock	\$ (.10)	.22	(.01)	.32
Diluted net earnings (loss) attributable to Liberty Media Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	\$ (1.67)	2.07	(1.38)	2.22
Series A and Series B Liberty Starz common stock	\$.16	.29	—	19.29
Series A and Series B Liberty Interactive common stock	\$ (.10)	.21	(.01)	.32

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2009, 2008 and 2007

	<u>1st</u> <u>Quarter</u>	<u>2nd</u> <u>Quarter</u>	<u>3rd</u> <u>Quarter</u>	<u>4th</u> <u>Quarter</u>
	amounts in millions, except per share amounts			
<i>2008:</i>				
Revenue	\$2,316	2,406	2,299	2,796
Operating income (loss)	\$ 226	240	64	(1,288)
Earnings (loss) from continuing operations	\$ (10)	146	(295)	(2,130)
Net earnings (loss) attributable to Liberty Media Corporation stockholders:				
Series A and Series B Liberty Capital common stock	\$ (105)	(30)	(112)	(279)
Series A and Series B Liberty Starz common stock	\$ 35	63	147	(861)
Series A and Series B Liberty Interactive common stock	\$ 125	92	(283)	(715)
Old Series A and Series B Liberty Capital common stock	\$5,402	—	—	—
Basic earnings (loss) from continuing operations attributable to Liberty Media Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	\$ (.81)	(.24)	(1.03)	(2.85)
Series A and Series B Liberty Starz common stock	\$.03	.15	.18	(2.23)
Series A and Series B Liberty Interactive common stock	\$.21	.15	(.48)	(1.20)
Old Series A and Series B Liberty Capital common stock	\$ (.46)	—	—	—
Diluted earnings (loss) from continuing operations attributable to Liberty Media Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	\$ (.81)	(.24)	(1.03)	(2.85)
Series A and Series B Liberty Starz common stock	\$.03	.14	.18	(2.23)
Series A and Series B Liberty Interactive common stock	\$.21	.15	(.48)	(1.20)
Old Series A and Series B Liberty Capital common stock	\$ (.46)	—	—	—
Basic net earnings (loss) attributable to Liberty Media Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	\$ (.81)	(.24)	(1.03)	(2.85)
Series A and Series B Liberty Starz common stock	\$.07	.12	.28	(1.67)
Series A and Series B Liberty Interactive common stock	\$.21	.15	(.48)	(1.20)
Old Series A and Series B Liberty Capital common stock	\$41.88	—	—	—
Diluted net earnings (loss) attributable to Liberty Media Corporation stockholders per common share:				
Series A and Series B Liberty Capital common stock	\$ (.81)	(.24)	(1.03)	(2.85)
Series A and Series B Liberty Starz common stock	\$.07	.12	.28	(1.67)
Series A and Series B Liberty Interactive common stock	\$.21	.15	(.48)	(1.20)
Old Series A and Series B Liberty Capital common stock	\$41.55	—	—	—

Unaudited Attributed Financial Information for Tracking Stock Groups

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

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

On November 19, 2009, we completed the redemption of a portion of the outstanding shares of Liberty Entertainment Stock for all of the outstanding shares of a newly formed, wholly owned subsidiary, Liberty Entertainment, Inc. (“LEI”) (the “Redemption”). The Redemption and the resulting separation of LEI from us pursuant to the Redemption are referred to herein as the Split Off.

In connection with the Redemption, we redeemed 90% of the outstanding shares of each series of Liberty Entertainment common stock for 100% of the outstanding shares of the same series of LEI, with cash in lieu of fractional shares. Immediately following the Split-Off, LEI and The DIRECTV Group, Inc. completed the DTV Business Combination and each of LEI and DIRECTV have become wholly owned subsidiaries of a new public holding company named DIRECTV (“Holdings”). We have included the results of operations of LEI, along with the gain recognized on the DTV Business combination, in earnings from discontinued operations in our and the Starz Group’s statement of operations.

Subsequent to the Split Off, the Liberty Entertainment group was renamed the Liberty Starz group.

The following tables present our assets, liabilities, revenue, expenses and cash flows as of and for the years ended December 31, 2009, 2008 and 2007. The tables further present our assets, liabilities, revenue, expenses and cash flows that are attributed to the Interactive Group, the Starz Group and the Capital Group, respectively. The financial information should be read in conjunction with our audited financial statements for the years ended December 31, 2009, 2008 and 2007 included in this Annual Report on pages F-37 - F-97. The attributed financial information presented in the tables has been prepared assuming the restructuring and the reclassification had been completed as of January 1, 2007 and does not reflect the impacts of the Reattribution described in note 2 to our consolidated financial statements.

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

SUMMARY ATTRIBUTED FINANCIAL DATA

Interactive Group

	December 31,		
	2009	2008	2007
	amounts in millions		
Summary Balance Sheet Data:			
Current assets	\$ 3,379	3,282	2,921
Cost investments	\$ 734	739	2,044
Equity investments	\$ 895	901	1,311
Total assets	\$17,343	17,487	19,326
Long-term debt, including current portion	\$ 6,073	7,131	7,177
Deferred income tax liabilities, noncurrent	\$ 1,939	1,999	2,670
Attributed net assts	\$ 6,794	6,303	7,530
Summary Operations Data:			
	Years ended December 31,		
	2009	2008	2007
	amounts in millions		
Revenue	\$ 8,305	8,079	7,802
Cost of goods sold	(5,332)	(5,224)	(4,925)
Operating expenses	(752)	(748)	(712)
Selling, general and administrative expenses(1)	(614)	(584)	(516)
Depreciation and amortization	(566)	(561)	(536)
Impairment of long-lived assets	—	(56)	—
Operating income	1,041	906	1,113
Interest expense	(496)	(473)	(465)
Share of earnings (losses) of affiliates	(14)	(1,192)	77
Other than temporary declines in fair value of investments	—	(440)	—
Other income (expense), net	(80)	(39)	51
Income tax benefit (expense)	(154)	493	(306)
Net earnings (loss)	297	(745)	470
Less net earnings attributable to the noncontrolling interests	39	36	29
Net earnings (loss) attributable to Liberty Media Corporation stockholders	\$ 258	(781)	441

(1) Includes stock-based compensation of \$47 million, \$32 million and \$35 million for the years ended December 31, 2009, 2008 and 2007, respectively.

SUMMARY ATTRIBUTED FINANCIAL DATA

Starz Group

	December 31,		
	2009	2008	2007
	amounts in millions		
Summary Balance Sheet Data:			
Current assets	\$1,544	1,476	793
Assets of discontinued operations	\$ —	14,211	11,050
Total assets	\$2,198	16,352	13,808
Long-term debt, including current portion	\$ 48	52	473
Attributed net assts	\$2,040	12,180	9,457
Summary Operations Data:			
	Years ended December 31,		
	2009	2008	2007
	amounts in millions		
Revenue	\$1,204	1,124	1,091
Operating expenses	(685)	(682)	(704)
Selling, general and administrative expenses(1)	(221)	(167)	(170)
Depreciation and amortization	(21)	(26)	(25)
Impairment of long-lived assets	(5)	(1,262)	(41)
Operating income (loss)	272	(1,013)	151
Interest expense	(2)	(22)	(25)
Share of losses of affiliates	(10)	(7)	—
Realized and unrealized gains on financial instruments	8	272	14
Other income, net	31	1	3
Income tax expense	(86)	(191)	(69)
Earnings (loss) from continuing operations	213	(960)	74
Earnings from discontinued operations	5,864	5,812	41
Net earnings	6,077	4,852	115
Less net loss attributable to the noncontrolling interests	—	—	(21)
Net earnings attributable to Liberty Media Corporation stockholders	\$6,077	4,852	136

(1) Includes stock-based compensation of \$76 million, \$15 million and \$42 million for the years ended December 31, 2009, 2008 and 2007, respectively.

SUMMARY ATTRIBUTED FINANCIAL DATA

Capital Group

	December 31,		
	2009	2008	2007
	amounts in millions		
Summary Balance Sheet Data:			
Current assets	\$4,087	2,973	2,759
Cost investments	\$3,355	2,118	4,873
Total assets	\$9,373	8,361	12,679
Long-term debt, including current portion	\$3,653	3,063	4,065
Deferred income tax liabilities, noncurrent	\$ 730	1,166	2,267
Attributed net assets	\$1,275	1,121	2,599
	Years ended December 31,		
	2009	2008	2007
	amounts in millions		
Summary Operations Data:			
Revenue	\$ 649	614	485
Operating expenses	(486)	(515)	(480)
Selling, general and administrative expenses(1)	(343)	(398)	(227)
Depreciation and amortization	(79)	(101)	(102)
Impairment of long-lived assets	(4)	(251)	(182)
Operating loss	(263)	(651)	(506)
Interest expense	(130)	(172)	(151)
Realized and unrealized gains (losses) on derivative instruments, net	(42)	(292)	1,261
Gain on dispositions, net	215	16	635
Other income, net	91	75	114
Income tax benefit	256	440	62
Earnings (loss) from continuing operations	127	(584)	1,415
Earnings from discontinued operations, net of taxes	—	—	149
Net earnings (loss)	127	(584)	1,564
Less net earnings attributable to the noncontrolling interests	—	8	27
Net earnings (loss) attributable to Liberty Media Corporation stockholders . .	<u>\$ 127</u>	<u>(592)</u>	<u>1,537</u>

(1) Includes stock-based compensation of \$5 million, \$2 million and \$12 million for the years ended December 31, 2009, 2008 and 2007, respectively.

BALANCE SHEET INFORMATION
December 31, 2009
(unaudited)

	Attributed (note 1)			Inter-group eliminations	Consolidated Liberty
	Interactive Group	Starz Group	Capital Group		
	amounts in millions				
<i>Assets</i>					
Current assets:					
Cash and cash equivalents	\$ 884	794	3,157	—	4,835
Trade and other receivables, net	1,250	191	77	—	1,518
Inventory, net	985	—	—	—	985
Program rights	—	469	—	—	469
Financial instruments	—	—	752	—	752
Current deferred tax assets	195	88	—	(283)	—
Other current assets	65	2	101	—	168
Total current assets	<u>3,379</u>	<u>1,544</u>	<u>4,087</u>	<u>(283)</u>	<u>8,727</u>
Investments in available-for-sale securities and other cost investments (note 2)	734	31	3,355	—	4,120
Investments in affiliates, accounted for using the equity method (note 3)	895	—	135	—	1,030
Property and equipment, net	1,030	109	166	—	1,305
Goodwill	5,891	133	201	—	6,225
Trademarks	2,492	2	14	—	2,508
Intangible assets subject to amortization, net	2,840	2	185	—	3,027
Other assets, at cost, net of accumulated amortization	82	377	1,230	—	1,689
Total assets	<u>\$17,343</u>	<u>2,198</u>	<u>9,373</u>	<u>(283)</u>	<u>28,631</u>
<i>Liabilities and Equity</i>					
Current liabilities:					
Accounts payable	\$ 578	7	13	—	598
Accrued liabilities	768	116	153	—	1,037
Intergroup payable (receivable)	116	(80)	(36)	—	—
Intergroup notes (note 1)	316	(158)	(158)	—	—
Financial instruments	143	—	859	—	1,002
Current portion of debt (note 4)	663	4	1,265	—	1,932
Current deferred tax liabilities	—	—	1,530	(283)	1,247
Other current liabilities	159	165	36	—	360
Total current liabilities	<u>2,743</u>	<u>54</u>	<u>3,662</u>	<u>(283)</u>	<u>6,176</u>
Long-term debt (note 4)	5,410	44	2,388	—	7,842
Long-term financial instruments	130	—	2	—	132
Deferred income tax liabilities (note 6)	1,939	6	730	—	2,675
Other liabilities	198	54	1,316	—	1,568
Total liabilities	<u>10,420</u>	<u>158</u>	<u>8,098</u>	<u>(283)</u>	<u>18,393</u>
Equity/Attributed net assets	6,794	2,040	1,275	—	10,109
Noncontrolling interests in equity of subsidiaries	129	—	—	—	129
Total liabilities and equity	<u>\$17,343</u>	<u>2,198</u>	<u>9,373</u>	<u>(283)</u>	<u>28,631</u>

BALANCE SHEET INFORMATION
December 31, 2008
(unaudited)

	Attributed (note 1)			Inter-group eliminations	Consolidated Liberty
	Interactive Group	Starz Group	Capital Group		
	amounts in millions				
<i>Assets</i>					
Current assets:					
Cash and cash equivalents	\$ 832	732	1,496	—	3,060
Trade and other receivables, net	1,171	181	156	—	1,508
Inventory, net	1,032	—	—	—	1,032
Program rights	—	492	—	(1)	491
Financial instruments	—	14	1,119	—	1,133
Current deferred tax assets	201	55	—	(256)	—
Other current assets	46	2	202	(18)	232
Assets of discontinued operations—current . . .	—	163	—	—	163
Total current assets	<u>3,282</u>	<u>1,639</u>	<u>2,973</u>	<u>(275)</u>	<u>7,619</u>
Investments in available-for-sale securities and other cost investments (note 2)	739	—	2,118	—	2,857
Long-term financial instruments	—	—	1,166	—	1,166
Investments in affiliates, accounted for using the equity method (note 3)	901	12	223	—	1,136
Property and equipment, net	1,064	117	147	—	1,328
Goodwill	5,859	137	205	—	6,201
Trademarks	2,491	—	14	—	2,505
Other non-amortizable intangibles	—	—	158	—	158
Intangible assets subject to amortization, net . . .	3,115	11	230	—	3,356
Other assets, at cost, net of accumulated amortization	36	388	1,127	(22)	1,529
Assets of discontinued operations	—	14,048	—	—	14,048
Total assets	<u>\$17,487</u>	<u>16,352</u>	<u>8,361</u>	<u>(297)</u>	<u>41,903</u>
<i>Liabilities and Equity</i>					
Current liabilities:					
Accounts payable	\$ 513	1	24	—	538
Accrued liabilities	741	140	212	(1)	1,092
Intergroup payable/receivable	71	15	(86)	—	—
Financial instruments	155	—	398	—	553
Current portion of debt (note 4)	175	4	437	—	616
Current deferred tax liabilities	—	—	1,029	(256)	773
Other current liabilities	55	180	71	(15)	291
Liabilities of discontinued operations—current	—	277	—	—	277
Total current liabilities	<u>1,710</u>	<u>617</u>	<u>2,085</u>	<u>(272)</u>	<u>4,140</u>
Long-term debt (note 4)	6,956	48	2,626	—	9,630
Long-term financial instruments	178	—	11	—	189
Deferred income tax liabilities (note 6)	1,999	—	1,166	(22)	3,143
Other liabilities	187	9	1,351	(1)	1,546
Liabilities of discontinued operations	—	3,498	—	—	3,498
Total liabilities	<u>11,030</u>	<u>4,172</u>	<u>7,239</u>	<u>(295)</u>	<u>22,146</u>
Equity/Attributed net assets	6,303	12,180	1,121	(2)	19,602
Noncontrolling interests in equity of subsidiaries .	154	—	1	—	155
Total liabilities and equity	<u>\$17,487</u>	<u>16,352</u>	<u>8,361</u>	<u>(297)</u>	<u>41,903</u>

STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION
Year ended December 31, 2009
(unaudited)

	Attributed (note 1)			Consolidated Liberty
	Interactive Group	Starz Group	Capital Group	
	amounts in millions			
Revenue:				
Net retail sales	\$8,305	—	—	8,305
Communications and programming services	—	1,204	649	1,853
	<u>8,305</u>	<u>1,204</u>	<u>649</u>	<u>10,158</u>
Operating costs and expenses:				
Cost of sales	5,332	—	—	5,332
Operating	752	685	486	1,923
Selling, general and administrative, including stock-based compensation (notes 1 and 5)	614	221	343	1,178
Depreciation and amortization	566	21	79	666
Impairment of long-lived assets	—	5	4	9
	<u>7,264</u>	<u>932</u>	<u>912</u>	<u>9,108</u>
Operating income (loss)	1,041	272	(263)	1,050
Other income (expense):				
Interest expense	(496)	(2)	(130)	(628)
Dividend and interest income	8	2	115	125
Intergroup interest income (expense)	(16)	8	8	—
Share of losses of affiliates, net	(14)	(10)	(34)	(58)
Realized and unrealized gains (losses) on financial instruments, net	(121)	8	(42)	(155)
Gains on dispositions, net	42	27	215	284
Other than temporary declines in fair value of investments	—	—	(9)	(9)
Loss on early extinguishment of debt	(11)	—	—	(11)
Other, net	18	(6)	11	23
	<u>(590)</u>	<u>27</u>	<u>134</u>	<u>(429)</u>
Earnings (loss) before income taxes	451	299	(129)	621
Income tax benefit (expense) (note 6)	(154)	(86)	256	16
Net earnings (loss) from continuing operations	297	213	127	637
Earnings from discontinued operations, net of taxes	—	5,864	—	5,864
Net earnings	297	6,077	127	6,501
Less net earnings attributable to the noncontrolling interests	39	—	—	39
Net earnings attributable to Liberty Media Corporation stockholders	<u>\$ 258</u>	<u>6,077</u>	<u>127</u>	<u>6,462</u>
Net earnings	<u>\$ 297</u>	<u>6,077</u>	<u>127</u>	<u>6,501</u>
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	1	—	2	3
Unrealized holding gains arising during the period	187	—	43	230
Recognition of previously unrealized gains on available-for-sale securities, net	(26)	—	(1)	(27)
Share of other comprehensive loss of equity affiliates	(5)	—	—	(5)
Other	47	—	(4)	43
Other comprehensive earnings from discontinued operations	—	31	—	31
Other comprehensive earnings	<u>204</u>	<u>31</u>	<u>40</u>	<u>275</u>
Comprehensive earnings	501	6,108	167	6,776
Less comprehensive earnings attributable to the noncontrolling interests	32	—	—	32
Comprehensive earnings attributable to Liberty Media Corporation stockholders	<u>\$ 469</u>	<u>6,108</u>	<u>167</u>	<u>6,744</u>

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

	Attributed (note 1)			Consolidated Liberty
	Interactive Group	Starz Group	Capital Group	
	amounts in millions			
Revenue:				
Net retail sales	\$ 8,079	—	—	8,079
Communications and programming services	—	1,124	614	1,738
	<u>8,079</u>	<u>1,124</u>	<u>614</u>	<u>9,817</u>
Operating costs and expenses:				
Cost of sales	5,224	—	—	5,224
Operating	748	682	515	1,945
Selling, general and administrative, including stock-based compensation (notes 1 and 5)	584	167	398	1,149
Depreciation and amortization	561	26	101	688
Impairment of long-lived assets	56	1,262	251	1,569
	<u>7,173</u>	<u>2,137</u>	<u>1,265</u>	<u>10,575</u>
Operating income (loss)	906	(1,013)	(651)	(758)
Other income (expense):				
Interest expense	(473)	(22)	(172)	(667)
Dividend and interest income	22	16	136	174
Share of losses of affiliates, net	(1,192)	(7)	(64)	(1,263)
Realized and unrealized gains (losses) on financial instruments, net	(240)	272	(292)	(260)
Gains (losses) on dispositions of assets, net	2	(3)	16	15
Other than temporary declines in fair value of investments	(440)	—	(1)	(441)
Gain on early extinguishment of debt	240	—	—	240
Other, net	(63)	(12)	4	(71)
	<u>(2,144)</u>	<u>244</u>	<u>(373)</u>	<u>(2,273)</u>
Loss from continuing operations before income taxes	(1,238)	(769)	(1,024)	(3,031)
Income tax benefit (expense) (note 6)	493	(191)	440	742
Loss from continuing operations	(745)	(960)	(584)	(2,289)
Earnings from discontinued operations, net of taxes	—	5,812	—	5,812
Net earnings (loss)	(745)	4,852	(584)	3,523
Less net earnings attributable to the noncontrolling interests	36	—	8	44
Net earnings (loss) attributable to Liberty Media Corporation stockholders	<u>\$ (781)</u>	<u>4,852</u>	<u>(592)</u>	<u>3,479</u>
Net earnings (loss)	<u>\$ (745)</u>	<u>4,852</u>	<u>(584)</u>	<u>3,523</u>
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	(10)	—	(9)	(19)
Unrealized holding losses arising during the period	(498)	—	(2)	(500)
Recognition of previously unrealized losses on available-for-sale securities, net	272	—	1	273
Share of other comprehensive loss of equity affiliates	(10)	—	—	(10)
Other	(60)	—	(2)	(62)
Other comprehensive loss from discontinued operations	—	(2,618)	—	(2,618)
Other comprehensive loss	<u>(306)</u>	<u>(2,618)</u>	<u>(12)</u>	<u>(2,936)</u>
Comprehensive earnings (loss)	(1,051)	2,234	(596)	587
Less comprehensive earnings attributable to the noncontrolling interests	63	—	8	71
Comprehensive earnings (loss) attributable to Liberty Media Corporation stockholders	<u><u>\$ (1,114)</u></u>	<u><u>2,234</u></u>	<u><u>(604)</u></u>	<u><u>516</u></u>

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

	Attributed (note 1)			Consolidated Liberty
	Interactive Group	Starz Group	Capital Group	
	amounts in millions			
Revenue:				
Net retail sales	\$7,802	—	—	7,802
Communications and programming services	—	1,091	485	1,576
	<u>7,802</u>	<u>1,091</u>	<u>485</u>	<u>9,378</u>
Operating costs and expenses:				
Cost of sales	4,925	—	—	4,925
Operating	712	704	480	1,896
Selling, general and administrative, including stock-based compensation (notes 1 and 5)	516	170	227	913
Depreciation and amortization	536	25	102	663
Impairment of long-lived assets	—	41	182	223
	<u>6,689</u>	<u>940</u>	<u>991</u>	<u>8,620</u>
Operating income (loss)	1,113	151	(506)	758
Other income (expense):				
Interest expense	(465)	(25)	(151)	(641)
Dividend and interest income	44	3	217	264
Share of earnings (losses) of affiliates, net	77	—	(68)	9
Realized and unrealized gains (losses) on financial instruments, net	(6)	14	1,261	1,269
Gains (losses) on dispositions of assets, net	12	(1)	635	646
Other than temporary declines in fair value of investments	—	—	(33)	(33)
Other, net	1	1	(2)	—
	<u>(337)</u>	<u>(8)</u>	<u>1,859</u>	<u>1,514</u>
Earnings from continuing operations before income taxes	776	143	1,353	2,272
Income tax benefit (expense) (note 6)	(306)	(69)	62	(313)
Earnings from continuing operations	470	74	1,415	1,959
Earnings from discontinued operations, net of taxes	—	41	149	190
Net earnings	470	115	1,564	2,149
Less net earnings (loss) attributable to the noncontrolling interests . .	29	(21)	27	35
Net earnings attributable to Liberty Media Corporation stockholders .	<u>\$ 441</u>	<u>136</u>	<u>1,537</u>	<u>2,114</u>
Net earnings	<u>\$ 470</u>	<u>115</u>	<u>1,564</u>	<u>2,149</u>
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	102	—	(1)	101
Unrealized holding losses arising during the period	(394)	—	(845)	(1,239)
Recognition of previously unrealized gains on available-for-sale securities, net	—	—	(375)	(375)
Share of other comprehensive earnings of equity affiliates	3	—	—	3
Other	(46)	—	—	(46)
Other comprehensive loss from discontinued operations	—	(317)	—	(317)
Other comprehensive loss	<u>(335)</u>	<u>(317)</u>	<u>(1,221)</u>	<u>(1,873)</u>
Comprehensive earnings (loss)	135	(202)	343	276
Less comprehensive earnings (loss) attributable to the noncontrolling interests	35	(21)	27	41
Comprehensive earnings (loss) attributable to Liberty Media Corporation stockholders	<u>\$ 100</u>	<u>(181)</u>	<u>316</u>	<u>235</u>

STATEMENT OF CASH FLOWS INFORMATION
Year ended December 31, 2009
(unaudited)

	Attributed (note 1)			Consolidated Liberty
	Interactive Group	Starz Group	Capital Group	
	amounts in millions			
Cash flows from operating activities:				
Net earnings	\$ 297	6,077	127	6,501
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Earnings from discontinued operations	—	(5,864)	—	(5,864)
Depreciation and amortization	566	21	79	666
Impairment of long-lived assets	—	5	4	9
Stock-based compensation	47	76	5	128
Cash payments for stock based compensation	(9)	(2)	—	(11)
Noncash interest expense	97	—	—	97
Share of losses of affiliates, net	14	10	34	58
Realized and unrealized losses (gains) on financial instruments, net	121	(8)	42	155
Gains on disposition of assets, net	(42)	(27)	(215)	(284)
Other than temporary declines in fair value of investments	—	—	9	9
Deferred income tax expense (benefit)	(203)	(8)	53	(158)
Other noncash charges (credits), net	(6)	21	60	75
Intergroup tax allocation	224	97	(321)	—
Intergroup tax payments	(168)	(96)	264	—
Other intergroup cash transfers, net	2	(10)	8	—
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions:				
Current and other assets	5	(15)	29	19
Payables and other current liabilities	142	(21)	(74)	47
Net cash provided by operating activities	<u>1,087</u>	<u>256</u>	<u>104</u>	<u>1,447</u>
Cash flows from investing activities:				
Cash proceeds from dispositions	306	—	251	557
Proceeds from settlement of financial instruments	7	21	1,346	1,374
Cash paid for acquisitions, net of cash acquired	(2)	(1)	(1)	(4)
Investments in and loans to cost and equity investees	(24)	—	(726)	(750)
Repayment of loan by equity investee	—	—	634	634
Capital expended for property and equipment	(208)	(10)	(46)	(264)
Net decrease (increase) in restricted cash	(12)	—	66	54
Other investing activities, net	(19)	—	72	53
Net cash provided by investing activities	<u>48</u>	<u>10</u>	<u>1,596</u>	<u>1,654</u>
Cash flows from financing activities:				
Borrowings of debt	1,277	—	2,061	3,338
Intergroup debt borrowings	510	(255)	(255)	—
Repayments of debt	(2,538)	(3)	(2,141)	(4,682)
Repurchases of Liberty common stock	—	(13)	(5)	(18)
Settlement of financial instruments	(177)	—	28	(149)
Premium proceeds from financial instruments	177	—	155	332
Repayment of intergroup loan	(194)	97	97	—
Other financing activities, net	(121)	99	21	(1)
Net cash used by financing activities	<u>(1,066)</u>	<u>(75)</u>	<u>(39)</u>	<u>(1,180)</u>
Effect of foreign currency rates on cash	(17)	(8)	—	(25)
Net cash provided to discontinued operations:				
Cash used by operating activities	—	(5)	—	(5)
Cash used by investing activities	—	(15)	—	(15)
Cash provided by financing activities	—	—	—	—
Change in available cash held by discontinued operations	—	(101)	—	(101)
Net cash provided to discontinued operations	<u>—</u>	<u>(121)</u>	<u>—</u>	<u>(121)</u>
Net increase in cash and cash equivalents	52	62	1,661	1,775
Cash and cash equivalents at beginning of year	832	732	1,496	3,060
Cash and cash equivalents at end year	<u>\$ 884</u>	<u>794</u>	<u>3,157</u>	<u>4,835</u>

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

	Attributed (note 1)			Consolidated Liberty
	Interactive Group	Starz Group	Capital Group	
	amounts in millions			
Cash flows from operating activities:				
Net earnings (loss)	\$ (745)	4,852	(584)	3,523
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:				
Earnings from discontinued operations	—	(5,812)	—	(5,812)
Depreciation and amortization	561	26	101	688
Impairment of long-lived assets	56	1,262	251	1,569
Stock-based compensation	32	15	2	49
Cash payments for stock-based compensation	(9)	(14)	(1)	(24)
Noncash interest expense	7	—	1	8
Share of losses of affiliates, net	1,192	7	64	1,263
Realized and unrealized losses (gains) on financial instruments, net	240	(272)	292	260
Losses (gains) on dispositions of assets, net	(2)	3	(16)	(15)
Other than temporary declines in fair value of investments	440	—	1	441
Deferred income tax expense (benefit)	(828)	131	(300)	(997)
Other noncash charges (credits), net	(178)	—	98	(80)
Intergroup tax allocation	239	59	(298)	—
Intergroup tax payments	(190)	(79)	269	—
Other intergroup cash transfers, net	(68)	9	59	—
Changes in operating assets and liabilities, net of the effects of acquisitions:				
Current and other assets	(74)	60	(129)	(143)
Payables and other current liabilities	(165)	(23)	100	(88)
Net cash provided (used) by operating activities	<u>508</u>	<u>224</u>	<u>(90)</u>	<u>642</u>
Cash flows from investing activities:				
Cash proceeds from dispositions	18	—	17	35
Proceeds from settlement of financial instruments	—	—	33	33
Cash paid for acquisitions, net of cash acquired	(69)	(7)	(1)	(77)
Investment in and loans to cost and equity investees	(340)	(19)	(232)	(591)
Capital expended for property and equipment	(166)	(7)	(29)	(202)
Net decrease in restricted cash	—	—	383	383
Other investing activities, net	16	(11)	(88)	(83)
Net cash provided (used) by investing activities	<u>(541)</u>	<u>(44)</u>	<u>83</u>	<u>(502)</u>
Cash flows from financing activities:				
Borrowings of debt	1,483	—	1,548	3,031
Repayments of debt	(1,437)	(3)	(1,323)	(2,763)
Repurchases of Liberty common stock	(75)	—	(462)	(537)
Settlement of financial instruments	(56)	(13)	(277)	(346)
Intergroup cash transfers, net	—	450	(450)	—
Reattribution of cash	380	(380)	—	—
Other financing activities, net	(17)	15	(8)	(10)
Net cash provided (used) by financing activities	<u>278</u>	<u>69</u>	<u>(972)</u>	<u>(625)</u>
Effect of foreign currency rates on cash	30	—	(13)	17
Net cash provided by discontinued operations:				
Cash provided by operating activities	—	2	—	2
Cash used by investing activities	—	(1,464)	—	(1,464)
Cash provided by financing activities	—	1,930	—	1,930
Change in available cash held by discontinued operations	—	(68)	—	(68)
Net cash provided by discontinued operations	<u>—</u>	<u>400</u>	<u>—</u>	<u>400</u>
Net increase (decrease) in cash and cash equivalents	275	649	(992)	(8)
Cash and cash equivalents at beginning of year	557	83	2,488	3,128
Cash and cash equivalents at end of year	<u>\$ 832</u>	<u>732</u>	<u>1,496</u>	<u>3,060</u>

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

	Attributed (note 1)			Consolidated Liberty
	Interactive Group	Starz Group	Capital Group	
	amounts in millions			
Cash flows from operating activities:				
Net earnings	\$ 470	115	1,564	2,149
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Earnings from discontinued operations	—	(41)	(149)	(190)
Depreciation and amortization	536	25	102	663
Impairment of long-lived assets	—	41	182	223
Stock-based compensation	35	42	12	89
Cash payments for stock-based compensation	(37)	—	(3)	(40)
Noncash interest expense	4	—	5	9
Share of losses (earnings) of affiliates, net	(77)	—	68	(9)
Realized and unrealized losses (gains) on financial instruments, net	6	(14)	(1,261)	(1,269)
Losses (gains) on dispositions of assets, net	(12)	1	(635)	(646)
Other than temporary declines in fair value of investments	—	—	33	33
Deferred income tax expense (benefit)	(128)	48	200	120
Other noncash charges (credits), net	(1)	—	142	141
Intergroup tax allocation	278	21	(299)	—
Intergroup tax payments	(321)	(50)	371	—
Other intergroup cash transfers, net	54	—	(54)	—
Changes in operating assets and liabilities, net of the effects of acquisitions:				
Current and other assets	(290)	21	(165)	(434)
Payables and other current liabilities	87	(41)	223	269
Net cash provided by operating activities	<u>604</u>	<u>168</u>	<u>336</u>	<u>1,108</u>
Cash flows from investing activities:				
Cash proceeds from dispositions	12	—	483	495
Proceeds from settlement of financial instruments	—	—	75	75
Cash received in exchange transactions	—	—	1,154	1,154
Cash paid for acquisitions, net of cash acquired	(236)	—	(7)	(243)
Investment in special purpose entity	—	—	(750)	(750)
Capital expended for property and equipment	(289)	(10)	(16)	(315)
Net increase in restricted stock	—	—	(882)	(882)
Other investing activities, net	(74)	3	(98)	(169)
Net cash used by investing activities	<u>(587)</u>	<u>(7)</u>	<u>(41)</u>	<u>(635)</u>
Cash flows from financing activities:				
Borrowings of debt	1,112	—	757	1,869
Repayments of debt	(332)	(3)	(163)	(498)
Repurchases of Liberty common stock	(1,224)	—	(1,305)	(2,529)
Intergroup cash transfers, net	—	(111)	111	—
Contribution from noncontrolling owner	—	—	751	751
Other financing activities, net	28	1	(27)	2
Net cash provided (used) by financing activities	<u>(416)</u>	<u>(113)</u>	<u>124</u>	<u>(405)</u>
Effect of foreign currency rates on cash	10	—	(2)	8
Net cash provided by discontinued operations:				
Cash provided by operating activities	—	50	8	58
Cash provided (used) by investing activities	—	7	(9)	(2)
Cash used by financing activities	—	(106)	—	(106)
Change in available cash held by discontinued operations	—	2	2	4
Net cash provided (used) by discontinued operations	<u>—</u>	<u>(47)</u>	<u>1</u>	<u>(46)</u>
Net increase (decrease) in cash and cash equivalents	(389)	1	418	30
Cash and cash equivalents at beginning of year	946	82	2,070	3,098
Cash and cash equivalents at end of year	<u>\$ 557</u>	<u>83</u>	<u>2,488</u>	<u>3,128</u>

Notes to Attributed Financial Information
(unaudited)

- (1) The assets attributed to our Interactive Group as of December 31, 2009 include our consolidated subsidiaries QVC, Inc., Provide Commerce, Inc., Backcountry.com, Inc., Bodybuilding.com, LLC and BuySeasons, Inc., and our interests in IAC/InterActiveCorp, Expedia, Inc., GSI Commerce, Inc., HSN, Inc., Interval Leisure Group, Inc., Ticketmaster Entertainment, Inc. and Tree.com, Inc. Accordingly, the accompanying attributed financial information for the Interactive Group includes the foregoing investments, as well as the assets, liabilities, revenue, expenses and cash flows of QVC, Provide, Backcountry, Bodybuilding and BuySeasons. We have also attributed certain of our debt obligations (and related interest expense) to the Interactive Group based upon a number of factors, including the cash flow available to the Interactive Group and its ability to pay debt service and our assessment of the optimal capitalization for the Interactive Group. The specific debt obligations attributed to each of the Interactive Group, the Starz Group and the Capital Group are described in note 4 below. In addition, we have allocated certain corporate general and administrative expenses among the Interactive Group, the Starz Group and the Capital Group as described in note 5 below.

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

The Starz Group consists primarily of our subsidiary Starz Entertainment, LLC, and approximately \$542 million of corporate cash. Accordingly, the accompanying attributed financial information for the Starz Group includes the assets, liabilities, revenue, expenses and cash flows of Starz Entertainment.

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

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

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

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

Notes to Attributed Financial Information (Continued)
(unaudited)

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

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	<u>amounts in millions</u>	
Capital Group		
Time Warner Inc.(a)	\$ 997	1,033
Time Warner Cable Inc.(a)	356	—
Sprint Nextel Corporation(a)	260	160
Motorola, Inc.(a)	403	328
Viacom, Inc.	226	145
CenturyTel, Inc./Embarq Corporation(a)	195	157
Other available-for-sale equity securities(a)	220	40
Other available-for-sale debt securities	676	224
Other cost investments and related receivables	22	31
Total attributed Capital Group	<u>3,355</u>	<u>2,118</u>
Interactive Group		
IAC/InterActiveCorp	492	638
Other	242	101
Total attributed Interactive Group	<u>734</u>	<u>739</u>
Starz Group		
Other	31	—
Total attributed Starz Group	<u>31</u>	<u>—</u>
Consolidated Liberty	<u>\$4,120</u>	<u>2,857</u>

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

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

	<u>December 31, 2009</u>	<u>Share of earnings</u>				
		<u>Percentage ownership</u>	<u>Carrying value</u>	<u>Market value</u>	<u>(losses)</u>	
				<u>years ended</u>		
				<u>December 31,</u>		
				<u>2009</u>		
				<u>2008</u>		
				<u>2007</u>		
				<u>dollar amounts in millions</u>		
Interactive Group						
Expedia(a)	24%	\$631	1,781	72	(726)	68
Capital Group						
Sirius	40%	\$ 33	(b)	(28)	—	—

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

(b) As of December 31, 2009, the Sirius Preferred Stock had a market value of \$1,552 million based on the value of the common stock into which it is convertible.

Notes to Attributed Financial Information (Continued)
(unaudited)

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

	December 31, 2009	
	Outstanding principal	Carrying value
	amounts in millions	
Interactive Group		
5.7% Senior Notes due 2013	\$ 803	801
8.5% Senior Debentures due 2029	287	284
8.25% Senior Debentures due 2030	504	501
3.25% Exchangeable Senior Debentures due 2031	541	320
QVC 7.5% Senior Secured Notes due 2019	1,000	983
QVC bank credit facilities	2,996	2,996
Other debt	188	188
Total Interactive Group debt	6,319	6,073
Capital Group		
3.125% Exchangeable Senior Debentures due 2023	1,138	1,157
4% Exchangeable Senior Debentures due 2029	469	243
3.75% Exchangeable Senior Debentures due 2030	460	237
3.5% Exchangeable Senior Debentures due 2031	494	297
Liberty bank facility	750	750
Liberty derivative loan	838	838
Subsidiary debt	131	131
Total Capital Group debt	4,280	3,653
Starz Group		
Subsidiary debt	48	48
Total debt	\$10,647	9,774

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

	Years ended December 31,		
	2009	2008	2007
	amounts in millions		
Interactive Group	\$26	19	17
Starz Group	\$46	11	19

Notes to Attributed Financial Information (Continued)
(unaudited)

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

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

Interactive Group

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

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Current:			
Federal	\$(223)	(220)	(280)
State and local	(49)	(19)	(64)
Foreign	(85)	(96)	(90)
	<u>(357)</u>	<u>(335)</u>	<u>(434)</u>
Deferred:			
Federal	173	708	94
State and local	27	110	33
Foreign	3	10	1
	<u>203</u>	<u>828</u>	<u>128</u>
Income tax benefit (expense)	<u>\$(154)</u>	<u>493</u>	<u>(306)</u>

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

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Computed expected tax benefit (expense)	\$(158)	433	(272)
State and local income taxes, net of federal income taxes . .	(20)	57	(19)
Foreign taxes, net of foreign tax credits	(4)	28	(10)
Change in valuation allowance affecting tax expense	—	15	5
Nondeductible losses related to the Company's common stock	20	(57)	—
Recognition of tax benefits (expense) not previously recognized, net	—	19	(5)
Expenses not deductible for income tax purposes	(1)	—	(1)
Other, net	9	(2)	(4)
Income tax benefit (expense)	<u>\$(154)</u>	<u>493</u>	<u>(306)</u>

Notes to Attributed Financial Information (Continued)
(unaudited)

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

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	<u>amounts in millions</u>	
Deferred tax assets:		
Net operating and capital loss carryforwards	\$ 36	42
Accrued stock compensation	17	11
Other accrued liabilities	169	197
Deferred revenue	16	9
Investments	124	181
Other future deductible amounts	<u>90</u>	<u>121</u>
Deferred tax assets	452	561
Valuation allowance	<u>(1)</u>	<u>—</u>
Net deferred tax assets	<u>451</u>	<u>561</u>
Deferred tax liabilities:		
Intangible assets	1,881	1,959
Discount on exchangeable debentures	225	300
Other	<u>89</u>	<u>100</u>
Deferred tax liabilities	<u>2,195</u>	<u>2,359</u>
Net deferred tax liabilities	<u>\$1,744</u>	<u>1,798</u>

Starz Group

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

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>amounts in millions</u>		
Current:			
Federal	\$(83)	(50)	(20)
State and local	(9)	(9)	1
Foreign	<u>(2)</u>	<u>(1)</u>	<u>(2)</u>
	<u>(94)</u>	<u>(60)</u>	<u>(21)</u>
Deferred:			
Federal	4	(116)	(39)
State and local	4	(15)	(9)
Foreign	<u>—</u>	<u>—</u>	<u>—</u>
	<u>8</u>	<u>(131)</u>	<u>(48)</u>
Income tax expense	<u>\$(86)</u>	<u>(191)</u>	<u>(69)</u>

Notes to Attributed Financial Information (Continued)
(unaudited)

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

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Computed expected tax benefit (expense)	\$(104)	270	(50)
State and local income taxes, net of federal income taxes . .	(4)	(16)	(6)
Change in valuation allowance affecting tax expense	3	(17)	—
Impairment of goodwill not deductible for tax purposes . . .	—	(442)	(11)
Expenses not deductible for income tax purposes	(3)	—	—
Excess tax deductions over book expense	19	—	—
Other, net	<u>3</u>	<u>14</u>	<u>(2)</u>
Income tax expense	<u>\$ (86)</u>	<u>(191)</u>	<u>(69)</u>

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

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	\$ 3	7
Accrued stock compensation	87	69
Intangible assets	7	11
Other future deductible amounts	<u>8</u>	<u>14</u>
Deferred tax assets	105	101
Valuation allowance	<u>(5)</u>	<u>(6)</u>
Net deferred tax assets	<u>100</u>	<u>95</u>
Deferred tax liabilities:		
Other	<u>18</u>	<u>18</u>
Deferred tax liabilities	<u>18</u>	<u>18</u>
Net deferred tax assets	<u>\$ (82)</u>	<u>(77)</u>

Notes to Attributed Financial Information (Continued)
(unaudited)

Capital Group

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

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Current:			
Federal	\$287	128	281
State and local	22	9	(18)
Foreign	—	3	(1)
	<u>309</u>	<u>140</u>	<u>262</u>
Deferred:			
Federal	(69)	266	(208)
State and local	16	34	8
Foreign	—	—	—
	<u>(53)</u>	<u>300</u>	<u>(200)</u>
Income tax benefit	<u>\$256</u>	<u>440</u>	<u>62</u>

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

	<u>Years ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	amounts in millions		
Computed expected tax benefit (expense)	\$ 45	359	(473)
Nontaxable exchange of investments for subsidiaries and cash	—	(2)	541
State and local income taxes, net of federal income taxes . .	20	28	(10)
Change in valuation allowance affecting tax expense	6	(3)	(10)
Recognition of tax benefits not previously recognized, net .	201	56	—
Expenses not deductible for income tax purposes	(12)	—	(2)
Other, net	(4)	2	16
Income tax benefit	<u>\$256</u>	<u>440</u>	<u>62</u>

Notes to Attributed Financial Information (Continued)
(unaudited)

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

	December 31,	
	2009	2008
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	\$ 135	287
Accrued liabilities	66	70
Deferred revenue	403	359
Other	62	17
Deferred tax assets	666	733
Valuation allowance	(11)	(17)
Net deferred tax assets	655	716
Deferred tax liabilities:		
Investments	1,660	1,414
Intangible assets	147	146
Discount on exchangeable debentures	738	1,351
Deferred gain on debt retirements	316	—
Other	54	—
Deferred tax liabilities	2,915	2,911
Net deferred tax liabilities	\$2,260	2,195

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

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

CORPORATE DATA

Board of Directors

John C. Malone
Chairman of the Board
Liberty Media Corporation

Robert R. Bennett
Managing Director
Hilltop Investments LLC

Donne F. Fisher
President
Fisher Capital Partners, Ltd.

M. Ian G. Gilchrist
Retired Investment Banker

Gregory B. Maffei
President and CEO
Liberty Media Corporation

Dr. Evan D. Malone
President
NextFab Studio, LLC

David E. Rapley
President
Rapley Consulting, Inc.

M. LaVoy Robison
Executive Director
The Anschutz Foundation

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

Andrea L. Wong
Former President and CEO
Lifetime Networks

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Gregory B. Maffei
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M. Ian G. Gilchrist
David E. Rapley
Andrea L. Wong

Audit Committee

Donne F. Fisher
M. LaVoy Robison
Larry E. Romrell

Nominating & Corporate Governance Committee

M. Ian G. Gilchrist
David E. Rapley
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

Mark D. Carleton
Senior Vice President

William R. Fitzgerald
Senior Vice President

David J. A. Flowers
Senior Vice President and
Treasurer

Albert E. Rosenthaler
Senior Vice President

Christopher W. Shean
Senior Vice President
and Controller

Michael P. Zeisser
Senior Vice President

Corporate Secretary

Pamela L. Coe

Corporate Headquarters

12300 Liberty Boulevard
Englewood, CO 80112
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Stock Information

Liberty Capital group Series A and Series B Common Stock (LCAPA/B), Liberty Interactive group Series A and B Common Stock (LINTA/B), and Liberty Starz group Series A and B Common Stock (LSTZA/B) trade on the NASDAQ Global Select Market

CUSIP Numbers

LCAPA – 53071M 30 2
LCAPB – 53071M 40 1
LINTA – 53071M 10 4
LINTB – 53071M 20 3
LSTZA – 53071M 70 8
LSTZB – 53071M 80 7

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Liberty on the Internet. Visit Liberty's web site at www.libertymedia.com

Financial Statements

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



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