

LIBERTY MEDIA LLC  
Form 10-Q  
August 13, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549**

**FORM 10-Q**

✓ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2008**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to  
Commission File Number 001-16615**

**LIBERTY MEDIA LLC**  
(Exact name of Registrant as specified in its charter)

**State of Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-5272297**  
(I.R.S. Employer  
Identification No.)

**12300 Liberty Boulevard**  
**Englewood, Colorado**  
(Address of principal executive offices)

**80112**  
(Zip Code)

Registrant's telephone number, including area code: (720) 875-5400

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)			

Indicate by check mark whether the Registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes  No

The Registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q, and is therefore filing this form with the reduced disclosure format.



## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(unaudited)

	June 30, 2008	December 31, 2007
	amounts in millions	
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 3,876	3,135
Trade and other receivables, net	1,404	1,517
Inventory, net	1,015	975
Program rights	521	515
Financial instruments (note 10)	35	23
Other current assets	202	144
<b>Total current assets</b>	<b>7,053</b>	<b>6,309</b>
Investments in available-for-sale securities and other cost investments, including \$682 million and \$1,183 million pledged as collateral for share borrowing arrangements (note 6)	5,449	17,569
Long-term financial instruments (note 10)	1,739	1,590
Investments in affiliates accounted for using the equity method (note 7)	14,769	1,817
Investment in special purpose entity (note 8)		750
Property and equipment, at cost	2,023	1,894
Accumulated depreciation	(647)	(543)
	1,376	1,351
Intangible assets not subject to amortization:		
Goodwill (note 9)	8,166	7,855
Trademarks	2,514	2,515
Other	173	173
	10,853	10,543
Intangible assets subject to amortization, net	3,773	3,863
Other assets, net (note 8)	1,627	1,857
<b>Total assets</b>	<b>\$46,639</b>	<b>45,649</b>

(continued)

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets (Continued)

(unaudited)

	June 30, 2008	December 31, 2007
	amounts in millions	
<i>Liabilities and Member's Equity</i>		
Current liabilities:		
Accounts payable	\$ 479	605
Accrued interest	165	148
Other accrued liabilities	865	936
Financial instruments (note 10)	712	1,206
Current portion of debt (note 11)	636	191
Accrued stock compensation	211	207
Current deferred income tax liabilities	253	93
Other current liabilities	221	153
<b>Total current liabilities</b>	<b>3,542</b>	<b>3,539</b>
Long-term debt, including \$2,813 million and \$3,690 million measured at fair value (note 11)	13,343	11,524
Long-term financial instruments (note 10)	224	176
Deferred income tax liabilities	5,893	8,463
Other liabilities	1,621	1,565
<b>Total liabilities</b>	<b>24,623</b>	<b>25,267</b>
Minority interests in equity of subsidiaries (note 8)	122	866
Member's equity:		
Member's equity	29,095	29,084
Note receivable from parent (note 13)	(3,989)	(3,624)
Accumulated other comprehensive earnings, net of taxes	113	4,073
Accumulated deficit	(3,325)	(10,017)
<b>Total member's equity</b>	<b>21,894</b>	<b>19,516</b>
Commitments and contingencies (note 14)		
<b>Total liabilities and member's equity</b>	<b>\$46,639</b>	<b>45,649</b>

See accompanying notes to condensed consolidated financial statements.

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations

(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	amounts in millions			
<b>Revenue:</b>				
Net retail sales	\$ 1,954	1,791	3,904	3,562
Communications and programming services	533	402	934	754
	2,487	2,193	4,838	4,316
<b>Operating costs and expenses:</b>				
Cost of sales	1,228	1,112	2,466	2,222
Operating	558	457	999	861
Selling, general and administrative, including stock-based compensation (note 3)	295	224	560	433
Depreciation and amortization	176	172	353	323
	2,257	1,965	4,378	3,839
Operating income	230	228	460	477
<b>Other income (expense):</b>				
Interest expense	(187)	(145)	(353)	(295)
Interest income parent (note 13)	52	33	112	49
Dividend and interest income third party	41	64	100	139
Share of earnings of affiliates, net	165	16	210	25
Realized and unrealized gains (losses) on financial instruments, net (note 10)	(37)	(251)	(322)	93
Gains (losses) on dispositions of assets, net	(1)	629	3,681	635
Other, net		5	(2)	5
	33	351	3,426	651
Earnings from continuing operations before income taxes and minority interests	263	579	3,886	1,128
Income tax benefit (expense) (note 12)	(97)	360	1,787	152
Minority interests in earnings of subsidiaries	(9)	(15)	(21)	(19)
Earnings from continuing operations	157	924	5,652	1,261
Earnings from discontinued operations, net of taxes		107		149
Net earnings	\$ 157	1,031	5,652	1,410

See accompanying notes to condensed consolidated financial statements.

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Earnings

(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	amounts in millions			
Net earnings	\$ 157	1,031	5,652	1,410
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	(6)	11	76	22
Unrealized holding losses arising during the period	(77)	(322)	(722)	(47)
Recognition of previously unrealized gains on available-for-sale securities, net		(392)	(2,273)	(396)
Change in fair value of cash flow hedges	47		(1)	
Other comprehensive loss	(36)	(703)	(2,920)	(421)
Comprehensive earnings	\$ 121	328	2,732	989

See accompanying notes to condensed consolidated financial statements.

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(unaudited)

	Six months ended June 30,	
	2008	2007
	amounts in millions	
	(note 4)	
Cash flows from operating activities:		
Net earnings	\$ 5,652	1,410
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Earnings from discontinued operations		(149)
Depreciation and amortization	353	323
Stock-based compensation	43	40
Cash payments for stock-based compensation	(19)	(35)
Noncash interest income, net	(94)	(43)
Share of earnings of affiliates, net	(210)	(25)
Realized and unrealized losses (gains) on financial instruments, net	322	(93)
Gains on disposition of assets, net	(3,681)	(635)
Minority interests in earnings of subsidiaries	21	19
Deferred income tax benefit	(2,097)	(228)
Other noncash charges, net	20	13
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions:		
Current assets	(26)	2
Payables and other current liabilities	(83)	(81)
Net cash provided by operating activities	201	518
Cash flows from investing activities:		
Cash proceeds from dispositions	24	520
Net proceeds (payments) from settlement of financial instruments	12	(65)
Cash paid for acquisitions, net of cash acquired	(46)	(126)
Cash received in exchange transactions	465	1,154
Capital expended for property and equipment	(92)	(179)
Net sales (purchases) of short term investments	67	(191)
Investments in and loans to cost and equity investees	(2,517)	(810)
Net decrease (increase) in restricted cash	340	(734)
Net cash transfers to parent	(253)	(1,808)
Other investing activities, net	(24)	19
Net cash used by investing activities	(2,024)	(2,220)
Cash flows from financing activities:		
Borrowings of debt	3,784	1,384
Repayments of debt	(1,165)	(336)
Contribution from minority owner		750
Other financing activities, net	(68)	(11)
Net cash provided by financing activities	2,551	1,787
Effect of foreign currency exchange rates on cash	13	1

Net cash provided by discontinued operations:

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Cash provided by operating activities		8
Cash used by investing activities		(9)
Change in available cash held by discontinued operations		2
Net cash provided by discontinued operations		1
Net increase in cash and cash equivalents	741	87
Cash and cash equivalents at beginning of period	3,135	3,107
Cash and cash equivalents at end of period	\$ 3,876	3,194

See accompanying notes to condensed consolidated financial statements.

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## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Condensed Consolidated Statement of Member's Equity

(unaudited)

Six months ended June 30, 2008

	Member's equity	Note receivable from parent	Accumulated other comprehensive earnings	Accumulated deficit	Total member's equity
amounts in millions					
Balance at January 1, 2008	\$29,084	(3,624)	4,073	(10,017)	19,516
Net earnings				5,652	5,652
Other comprehensive loss			(2,920)		(2,920)
Cumulative effect of accounting change (note 6)			(1,040)	1,040	
Cash transfers to parent, net		(253)			(253)
Intercompany interest income		(112)			(112)
Stock compensation	18				18
Other	(7)				(7)
Balance at June 30, 2008	\$29,095	(3,989)	113	(3,325)	21,894

See accompanying notes to condensed consolidated financial statements.

**LIBERTY MEDIA LLC AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**June 30 , 2008**  
**(unaudited)**

(1) Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Liberty Media LLC 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 is a wholly-owned subsidiary of Liberty Media Corporation ("LMC").

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

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for such periods have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in Liberty's Annual Report on Form 10-K for the year ended December 31, 2007.

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) the estimate of the fair value of its long-lived assets (including goodwill) and any resulting impairment charges, (ii) its accounting for income taxes, (iii) its assessment of other-than-temporary declines in fair value of its investments and (iv) its estimates of retail-related adjustments and allowances to be its most significant estimates.

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

Certain prior period amounts have been reclassified for comparability with the 2008 presentation.

(2) Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 141 (revised 2007), "*Business Combinations*" ("Statement 141R"). Statement 141R replaces Statement of Financial Accounting Standards No. 141, "*Business Combinations*" ("Statement 141"), although it retains the fundamental requirement in Statement 141 that the acquisition method of accounting be used for all business combinations. Statement 141R

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree, (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase and (c) determines what information to disclose regarding the business combination. Statement 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year after December 15, 2008.

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

(3) Stock-Based Compensation

Certain of the Company's employees and employees of its subsidiaries hold options, stock appreciation rights ("SARs") and options with tandem SARs (collectively, "Awards") to purchase shares of Series A and Series B Liberty Capital, Liberty Interactive and Liberty Entertainment common stock. The Awards generally vest over a 4-5 year period and expire 7-10 years from the date of grant. Upon exercise of Awards that are settled in common stock, LMC issues new shares from its authorized, but unissued shares.

LMC 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. LMC estimates the expected term of the Awards based on historical exercise and forfeiture data. The volatility used in the calculation for Awards granted in 2008 is 25.3% for Liberty Interactive Awards and 19.7% for Liberty Capital and Liberty Entertainment Awards. The volatility used in the calculation for Awards granted in 2007 is 20.8% for Liberty Interactive Awards and 17.5% for Liberty Capital Awards and is based on the historical volatility of LMC's stocks and the implied volatility of publicly traded Liberty options. LMC uses the risk-free rate for Treasury Bonds with a term similar to that of the subject options.

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

Three months ended:	
June 30, 2008	\$27
June 30, 2007	\$18
Six months ended:	
June 30, 2008	\$43
June 30, 2007	\$40

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

As of June 30, 2008, the total compensation cost related to unvested LMC equity awards was approximately \$69 million. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 2 years.

**LMC Awards**

During the six months ended June 30, 2008, LMC granted 3,510, 13,300 and 1,191,792 options to purchase shares of Series A Liberty Capital, Series A Liberty Entertainment and Series A Liberty Interactive common stock, respectively, to employees of certain subsidiaries. Liberty used the Black-Scholes Model to estimate the grant date fair value of such options. Such options granted in 2008 had a weighted average grant-date fair value of \$4.17, \$6.41 and \$3.95 per option, respectively.

On March 3, 2008, LMC effected a recapitalization whereby its Old Liberty Capital common stock was reclassified into Liberty Entertainment common stock (on a 4-for-1 basis) and Liberty Capital common stock (on a 1-for-1 basis) (the "Reclassification").

The following tables present the number and weighted average exercise price ("WAEP") of options, SARs and options with tandem SARs to purchase LMC common stock granted to certain officers and employees of the Company.

	Series A Liberty Capital common stock	WAEP	Series B Liberty Capital common stock	WAEP	Old Series A Liberty Capital common stock	WAEP	Old Series B Liberty Capital common stock	WAEP
<b>numbers of options in thousands</b>								
Outstanding at January 1, 2008					2,787	\$97.21	1,498	\$101.37
Granted	4	\$16.37						
Exercised	(11)	\$12.22	(90)	\$12.69	(6)	\$62.91		
Forfeited	(6)	\$14.50			(1)	\$92.47		
Converted in connection with the Reclassification	2,780	\$14.20	1,498	\$15.05	(2,780)		(1,498)	
Outstanding at June 30, 2008	2,767	\$14.21	1,408	\$15.20				
Exercisable at June 30, 2008	1,887	\$13.98	1,408	\$15.20				

	Series A Liberty Interactive common stock	WAEP	Series B Liberty Interactive common stock	WAEP
<b>numbers of options in thousands</b>				
Outstanding at January 1, 2008	24,811	\$19.97	7,491	\$23.41
Granted	1,192	\$15.05		
Exercised	(7)	\$13.17		
Forfeited	(925)	\$18.04		
Outstanding at June 30, 2008	25,071	\$19.78	7,491	\$23.41
Exercisable at June 30, 2008	13,005	\$20.75	7,491	\$23.41

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

	Series A Liberty Entertainment common stock	WAEP	Series B Liberty Entertainment common stock	WAEP
numbers of options in thousands				
Outstanding at January 1, 2008				
Issued in connection with the Reclassification	11,120	\$ 20.74	5,993	\$ 21.57
Granted	13	\$ 25.13		
Exercised	(14)	\$ 17.40		
Forfeited	(25)	\$ 23.79		
Outstanding at June 30, 2008	11,094	\$ 20.75	5,993	\$ 21.57
Exercisable at June 30, 2008	7,566	\$ 20.42	5,993	\$ 21.57

The following table provides additional information about outstanding options to purchase LMC common stock at June 30, 2008.

	No. of outstanding options (000's)	WAEP of outstanding options	Weighted average remaining life	Aggregate intrinsic value (000's)	No. of exercisable options (000's)	WAEP of exercisable options	Aggregate intrinsic value (000's)
Series A Capital	2,767	\$ 14.21	4.4 years	\$ 3,247	1,887	\$ 13.98	\$ 2,227
Series B Capital	1,408	\$ 15.20	2.7 years	\$	1,408	\$ 15.20	\$
Series A Interactive	25,071	\$ 19.78	4.8 years	\$ 93	13,005	\$ 20.75	\$ 65
Series B Interactive	7,491	\$ 23.41	2.9 years	\$	7,491	\$ 23.41	\$
Series A Entertainment	11,094	\$ 20.75	4.3 years	\$ 44,250	7,566	\$ 20.42	\$ 33,276
Series B Entertainment	5,993	\$ 21.57	2.9 years	\$ 16,279	5,993	\$ 21.57	\$ 16,279

(4) Supplemental Disclosures to Statements of Cash Flows

	Six months ended June 30, 2008      2007	
	amounts in millions	
Cash paid for acquisitions:		
Fair value of assets acquired	\$ 46	168
Net liabilities assumed	(4)	(34)
Deferred tax liabilities	4	
Minority interest		(1)
Common stock issued		(7)
Cash paid for acquisitions, net of cash acquired	\$ 46	126
Available-for-sale securities exchanged for consolidated subsidiaries, equity investment and cash	\$ 10,144	1,718

(5) Assets and Liabilities Measured at Fair Value

Effective January 1, 2008, Liberty adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("Statement 157"). Statement 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. In

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

February 2008, the FASB issued Staff Position No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"). FSP 157-2 delayed the effective date of Statement 157 for (i) non-financial assets and liabilities that are not remeasured at fair value on a recurring basis and (ii) fair value measurements required for impairment analysis of goodwill, identifiable intangible assets and other long-lived assets. The provisions of FSP 157-2 are effective for the Company's fiscal year beginning January 1, 2009. The Company's assets and liabilities measured at fair value are as follows:

Description	Total	Fair Value Measurements at June 30, 2008 Using	
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
		amounts in millions	
Available-for-sale securities	\$5,414	5,159	255
Financial instrument assets	\$1,774		1,774
Financial instrument liabilities	\$ 936	682	254
Debt	\$2,813		2,813

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. For the Company's debt instruments reported at fair value, the Company gets quoted market prices. However, the Company does not believe such instruments are traded on "active markets." Accordingly, the debt instruments are reported in the foregoing table as Level 2 fair value.

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

Effective January 1, 2008, Liberty adopted the provisions of Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" ("Statement 159"). Statement 159 permits entities to choose to measure many financial instruments, such as available-for-sale ("AFS") securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the entity's statement of operations. Previously under Statement of Financial Accounting Standards No. 115, entities were required to recognize changes in fair value of AFS securities in the balance sheet in accumulated other comprehensive earnings. Liberty has entered into economic hedges for many of its non-strategic AFS securities (although such instruments are not accounted for as fair value hedges by the Company). Changes in the fair value of these economic hedges are reflected in Liberty's statement of operations as unrealized gains (losses). In order to better match the changes in fair value of the subject AFS securities and the changes in fair value of the corresponding economic hedges in the Company's financial statements, Liberty has elected to apply the provisions of Statement 159 to those of its AFS securities ("Statement 159 Securities") which it considers to be non-strategic. Accordingly, changes in the fair value of Statement 159 Securities, as determined by quoted market prices, are reported in realized and unrealized gain (losses) on financial instruments in the accompanying June 30, 2008 condensed consolidated statement of operations. The amount of unrealized gains related to the Statement 159 Securities and included in accumulated other comprehensive earnings in the Company's balance sheet as of the date of adoption of Statement 159 aggregated \$1,040 million and has been reclassified to accumulated deficit. The total value of AFS securities for which the Company has elected the fair value option aggregated \$3,673 million as of June 30, 2008.

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LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

Investments in available-for-sale securities and other cost investments are summarized as follows:

	June 30, 2008	December 31, 2007
	amounts in millions	
IAC/InterActiveCorp ("IAC")	\$ 1,605	1,863
Time Warner Inc. ("Time Warner")(1)	1,520	1,695
News Corporation		10,647
Sprint Nextel Corporation(2)	830	1,150
Motorola, Inc.(3)	543	1,187
Viacom, Inc.	232	333
Embarq Corporation(4)	207	216
Other(5)	512	478
Consolidated Liberty	\$ 5,449	17,569

- 
- (1) Includes \$134 million and \$150 million of shares pledged as collateral for share borrowing arrangements at June 30, 2008 and December 31, 2007, respectively.
- (2) Includes \$86 million and \$118 million of shares pledged as collateral for share borrowing arrangements at June 30, 2008 and December 31, 2007, respectively.
- (3) Includes \$381 million and \$833 million of shares pledged as collateral for share borrowing arrangements at June 30, 2008 and December 31, 2007, respectively.
- (4) Includes \$21 million and \$22 million of shares pledged as collateral for share borrowing arrangements at June 30, 2008 and December 31, 2007, respectively.
- (5) Includes \$60 million and \$60 million of shares pledged as collateral for share borrowing arrangements at June 30, 2008 and December 31, 2007, respectively.

**IAC**

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

**News Corporation**

On February 27, 2008, Liberty exchanged all of its shares of News Corporation common stock for a subsidiary of News Corporation. See note 7 for further discussion of this transaction.

**Time Warner**

On May 17, 2007, Liberty completed a transaction with Time Warner (the "Time Warner Exchange") 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 holds Atlanta National League Baseball Club, Inc. ("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.



## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

*CBS Corporation*

On April 16, 2007, Liberty completed a transaction with CBS Corporation (the "CBS Exchange") 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 holds WFRV and WJMN Television Station, Inc. 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.

*Unrealized Holding Gains and Losses*

Unrealized holding gains and losses related to investments in available-for-sale securities are summarized below.

	June 30, 2008		December 31, 2007	
	Equity securities	Debt securities	Equity securities	Debt securities
	amounts in millions			
Gross unrealized holding gains	\$ 37		6,249	
Gross unrealized holding losses	\$ (300)			(12)

The aggregate fair value of securities with unrealized holding losses at June 30, 2008 was \$1,606 million. None of these securities had unrealized losses for more than 12 continuous months.

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

Liberty has various investments accounted for using the equity method. The following table includes Liberty's carrying amount and percentage ownership of the more significant investments in affiliates at June 30, 2008 and the carrying amount at December 31, 2007:

	June 30, 2008		December 31, 2007
	Percentage ownership	Carrying amount	Carrying amount
	dollar amounts in millions		
The DIRECTV Group, Inc. ("DIRECTV")	49%	\$ 12,921	
Expedia, Inc. ("Expedia")	24%	1,332	1,301
Other	various	516	516
		\$ 14,769	1,817

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

	Six months ended June 30,	
	2008	2007
	amounts in millions	
DIRECTV	\$ 190	
Expedia	35	30
Other	(15)	(5)
	\$ 210	25

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LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

**DIRECTV**

On February 27, 2008, Liberty completed a transaction with News Corporation (the "News Corporation Exchange") in which Liberty exchanged all of its 512.6 million shares of News Corporation common stock valued at \$10,144 million on the closing date for a subsidiary of News Corporation that held an approximate 41% interest in DIRECTV, three regional sports television networks ("Liberty Sports Group") and \$465 million in cash. In addition, Liberty incurred \$21 million of acquisition costs. Liberty recognized a pre-tax gain of \$3,666 million based on the difference between the fair value and the weighted average cost basis of the News Corporation shares exchanged.

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

Cash	\$ 465
DIRECTV	10,763
Liberty Sports Group	450
Deferred tax liability	(1,513)
<b>Total</b>	<b>\$ 10,165</b>

The value attributed to Liberty's investment in DIRECTV exceeded Liberty's proportionate share of DIRECTV's equity. Such amount has been allocated within memo accounts used for equity accounting purposes as follows (amounts in millions):

Subscriber list	\$ 2,381
Trade name	2,677
Orbital slots	3,693
Goodwill	2,546
Satellites	167
Software technology	527
Deferred tax liability	(3,778)
<b>Total</b>	<b>\$ 8,213</b>

Liberty estimated the fair values of Liberty Sports Group and DIRECTV's assets using a combination of discounted cash flows and market prices for comparable assets. Such estimates are preliminary and are subject to change upon completion of Liberty's purchase price allocation process. Liberty has ascribed a useful life of 7 years to the subscriber list, 13 years to the satellites, 5 years to the technology and indefinite lives to the orbital slots, tradenames and goodwill. Amortization related to the intangible assets with identifiable useful lives within the memo accounts is included in Liberty's share of earnings of DIRECTV in the accompanying condensed consolidated statement of operations and aggregated \$85 million (net of related taxes) for the 4 months ended June 30, 2008.

On April 3, 2008, Liberty purchased 78.3 million additional shares of DIRECTV common stock in a private transaction for cash consideration of \$1.98 billion. Liberty funded the purchase with borrowings against a newly executed equity collar on 110 million DIRECTV common shares. As of May 5, 2008, Liberty's ownership in DIRECTV was approximately 47.9%, and Liberty and DIRECTV entered into a standstill agreement. Pursuant to the standstill agreement, in the event Liberty's

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## LIBERTY MEDIA LLC AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements (Continued)

ownership interest goes above 47.9% due to stock repurchases by DIRECTV Liberty has agreed to vote its shares of DIRECTV which represent the excess ownership interest above 47.9% in the same proportion as all DIRECTV shareholders other than Liberty. Accordingly, in the event Liberty's economic ownership in DIRECTV goes above 50%, Liberty will continue to account for such investment using the equity method of accounting. Liberty records its share of DIRECTV's earnings based on its economic interest in DIRECTV.

During the period from February 27, 2008 to June 30, 2008, subsidiaries of Liberty recognized \$97 million in revenue from DIRECTV for distribution of their programming. The fair value of the Company's investment in DIRECTV was \$14,217 million at June 30, 2008. Summarized unaudited financial information for DIRECTV is as follows:

#### DIRECTV Consolidated Balance Sheet

	June 30, 2008 amounts in millions
Current assets	\$ 5,706
Satellites, net	2,239
Property and equipment, net	3,962
Goodwill	3,666
Intangible assets	1,378
Other assets	883
<b>Total assets</b>	<b>\$ 17,834</b>
 Current liabilities	
	\$ 3,256
Deferred income taxes	680
Long-term debt	5,784
Other liabilities	1,500
Minority interest	36
Stockholders' equity	6,578
 Total liabilities and equity	 \$ 17,834

#### DIRECTV Consolidated Statement of Operations

	Six months ended June 30, 2008 amounts in millions
Revenue	\$ 9,398
Costs of revenue	(4,614)
Selling, general and administrative expenses	(2,245)
Depreciation and amortization	(1,081)
 Operating income	 1,458
Interest expense	(145)
Other income, net	30
Income tax expense	(517)
 Net earnings	 \$ 826



## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

*Expedia*

The fair value of the Company's investment in Expedia was \$1,272 million and \$2,189 million at June 30, 2008 and December 31, 2007, respectively. Summarized unaudited financial information for Expedia is as follows:

**Expedia Consolidated Balance Sheet**

	<b>June 30, 2008</b>	
	<b>amounts in</b>	
	<b>millions</b>	
Current assets	\$	1,683
Property and equipment		209
Goodwill		6,136
Intangible assets		980
Other assets		113
Total assets	\$	9,121
Current liabilities	\$	2,579
Deferred income taxes		362
Long-term debt		894
Other liabilities		217
Minority interest		59
Stockholders' equity		5,010
Total liabilities and equity	\$	9,121

**Expedia Consolidated Statements of Operations**

	<b>Six months</b>	
	<b>ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>amounts in millions</b>	
Revenue	\$ 1,483	1,240
Cost of revenue	(321)	(265)
Gross profit	1,162	975
Selling, general and administrative expenses	(864)	(713)
Amortization	(37)	(41)
Operating income	261	221
Interest expense	(29)	(21)
Other income	10	19
Income tax expense	(95)	(88)
Net earnings	\$ 147	131

**LIBERTY MEDIA LLC AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

(8) Investment in Special Purpose Entity

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

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

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

The amount of restricted cash in the Investment Fund at June 30, 2008 is \$542 million and is reflected in other long-term assets in Liberty's condensed consolidated balance sheet.

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

(9) Intangible Assets**Goodwill**

Changes in the carrying amount of goodwill for the six months ended June 30, 2008 are as follows:

	QVC, Inc.	Starz Entertainment	Other	Total
	amounts in millions			
Balance at January 1, 2008	\$ 5,419	1,371	1,065	7,855
Acquisitions(1)			289	289
Foreign currency translation	35		(1)	34
Other	(2)		(10)	(12)
Balance at June 30, 2008	\$ 5,452	1,371	1,343	8,166

(1)

The increase in goodwill relates primarily to the News Corporation Exchange. The amount of goodwill recorded of \$248 million represents the difference between the value allocated to Liberty Sports Group and the estimated fair value of the Liberty Sports Group identifiable tangible and intangible assets acquired. Such goodwill is subject to adjustment pending the completion of the Company's purchase price allocation process.

**Amortizable Intangible Assets**

Amortization of intangible assets with finite useful lives was \$258 million and \$251 million for the six months ended June 30, 2008 and 2007, respectively. Based on its current amortizable intangible assets, Liberty expects that amortization expense will be as follows for the next five years (amounts in millions):

Remainder of 2008	\$ 259
2009	\$ 476
2010	\$ 440
2011	\$ 402
2012	\$ 381

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

(10) Financial Instruments

The Company's financial instruments are summarized as follows:

Type of financial instrument	June 30, 2008	December 31, 2007
amounts in millions		
<i>Assets</i>		
Equity collars	\$ 1,725	1,458
Other	49	155
	1,774	1,613
Less current portion	(35)	(23)
	\$ 1,739	1,590
<i>Liabilities</i>		
Borrowed shares	\$ 682	1,183
Equity collars	144	
Other	110	199
	936	1,382
Less current portion	(712)	(1,206)
	\$ 224	176

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

	Six months ended June 30, 2008		2007	
	amounts in millions			
Statement 159 Securities(1)	\$(1,282)			
Senior exchangeable debentures	388		61	
Equity collars	223		(71)	
Borrowed shares	501		121	
Other derivatives	(152)		(18)	
	\$ (322)		93	

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(1) See note 6 regarding Liberty's accounting for its Statement 159 Securities.

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

(11) Long-Term Debt

Debt is summarized as follows:

	Outstanding principal	Carrying value	
	June 30, 2008	June 30, 2008	December 31, 2007
amounts in millions			
<b>Senior notes and debentures</b>			
7.875% Senior Notes due 2009	\$ 670	668	668
7.75% Senior Notes due 2009	233	234	234
5.7% Senior Notes due 2013	803	801	801
8.5% Senior Debentures due 2029	500	495	495
8.25% Senior Debentures due 2030	902	895	895
<b>Exchangeable senior debentures</b>			
3.125% Exchangeable Senior Debentures due 2023	1,264	1,318	1,820
4% Exchangeable Senior Debentures due 2029	869	486	556
3.75% Exchangeable Senior Debentures due 2030	810	405	463
3.5% Exchangeable Senior Debentures due 2031	499	276	432
3.25% Exchangeable Senior Debentures due 2031	551	328	419
Liberty bank facility	750	750	750
Liberty derivative borrowing	1,993	1,993	
Other parent debt	625	625	
QVC bank credit facilities	4,486	4,486	4,023
Other subsidiary debt	219	219	159
Total consolidated Liberty debt	\$ 15,174	13,979	11,715
Less current maturities		(636)	(191)
Total long-term debt		\$ 13,343	11,524

**3.125% Exchangeable Senior Debentures**

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

**Liberty Bank Facility**

Represents borrowings related to the Investment Fund described in note 8 above. Borrowings accrue interest at a rate of LIBOR plus an applicable margin.

**LIBERTY MEDIA LLC AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

***QVC Bank Credit Facilities***

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

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

All loans under the March 2006 Credit Agreement and the October 2006 Credit Agreement bear interest at a rate equal to (i) LIBOR for the interest period selected by QVC plus a margin that varies based on QVC's leverage ratio or (ii) the higher of the Federal Funds Rate plus 0.50% or the prime rate announced by the respective Administrative Agent from time to time. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments. Such fees were not significant in 2008 or 2007.

The credit agreements contain restrictive covenants regarding, among other matters, the maintenance of certain financial ratios and limitations on indebtedness, liens, encumbrances, dispositions, guarantees and dividends. QVC was in compliance with its debt covenants at June 30, 2008. QVC's ability to borrow the unused portion of its credit agreements is dependent on its continuing compliance with such covenants both before and after giving effect to such additional borrowings.

***QVC Interest Rate Swap Arrangements***

QVC is a party to ten separate interest rate swap arrangements with an aggregate notional amount of \$2,200 million to manage the cash flow risk associated with interest payments on its variable rate debt. The swap arrangements provide for QVC to make fixed payments at rates ranging from 4.9575% to 5.2928% and to receive variable payments at 3 month LIBOR. All of the swap arrangements expire in March 2011 contemporaneously with the maturity of the March 2006 Credit Agreement. QVC is also party to an interest rate swap arrangement with a notional amount of \$500 million. This swap arrangement, which expires in September 2008, provides for QVC to make fixed payments at 4.71% and to receive variable payments at 1 month LIBOR. Liberty accounts 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.

***Liberty Derivative Borrowing***

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

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

**Other Subsidiary Debt**

Other subsidiary debt at June 30, 2008, is comprised of capitalized satellite transponder lease obligations and bank debt of certain subsidiaries.

**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 condensed consolidated balance sheet at June 30, 2008 is as follows (amounts in millions):

Senior notes	\$ 1,640
Senior debentures	\$ 1,226

Due to the low risk nature of the DIRECTV equity collar credit facility, Liberty believes that the carrying amount approximates fair value. Due to its variable rate nature, Liberty believes that the carrying amount of its subsidiary debt and other parent debt approximated fair value at June 30, 2008.

(12) Income Taxes**Effective Tax Rate**

The News Corporation Exchange qualifies as an IRC Section 355 transaction, and therefore does not trigger federal or state income tax obligations. In addition, upon consummation of this exchange transaction, deferred tax liabilities previously recorded for the difference between Liberty's book and tax bases in its News Corporation investment in the amount of \$1,791 million were reversed with an offset to income tax benefit. Accordingly, a federal income tax benefit adjustment of approximately \$2,933 million will be included in Liberty's reconciliation of computed "expected" income taxes to actual income taxes for the year ended December 31, 2008.

**IRS Settlement**

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

In connection with the IRS' examination of Liberty's 2003 through 2007 tax returns, the IRS notified Liberty during the third quarter of 2007 that it believed the interest expense on Liberty's exchangeable debentures was not deductible for the period following Liberty's split-off from AT&T. In February 2008, Liberty reached a settlement with the IRS, which stipulated that interest deductions claimed on a portion of the exchangeable debentures were disallowed and instead would reduce Liberty's gain on the future redemption or other retirement of such debt. The cumulative amount of

**LIBERTY MEDIA LLC AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

interest deductions disallowed through December 31, 2007 under the settlement is \$546 million. As a result, a portion of Liberty's NOLs were eliminated and Liberty had net taxable income in 2006 and 2007. Consequently, Liberty expects to remit federal income tax payments for the foreseeable future.

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

(13) Related Party Transactions

The Company has made interest-bearing cash advances to LMC. Such advances aggregated \$3,989 million as of June 30, 2008. Interest, which accrues daily at 1-year LIBOR plus 1.35% (4.5% at June 30, 2008), aggregated \$112 million and \$49 million for the six months ended June 30, 2008 and 2007, respectively.

(14) Commitments and Contingencies

***Film Rights***

Starz Entertainment, a wholly-owned subsidiary of Liberty, provides 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 June 30, 2008 is reflected as a liability in the accompanying condensed consolidated balance sheet. The balance due as of June 30, 2008 is payable as follows: \$86 million in 2008, \$16 million in 2009 and \$6 million thereafter.

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 June 30, 2008. Starz Entertainment's estimate of amounts payable under these agreements is as follows: \$164 million in 2008; \$377 million in 2009; \$101 million in 2010; \$100 million in 2011; \$94 million in 2012; and \$178 million thereafter.

In addition, Starz Entertainment is also obligated to pay Programming Fees for all qualifying films that are released theatrically in the United States by studios owned by The Walt Disney Company ("Disney") through 2012 and all qualifying films that are released theatrically in the United States by studios owned by Sony Pictures Entertainment ("Sony") through 2013. 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 connection with an option exercised by Sony to extend the Sony contract through 2013, Starz Entertainment has agreed to pay Sony a total of \$190 million in four annual installments of \$47.5 million beginning in 2011. Such payments to Sony will be amortized ratably as programming expense over the three-year period beginning in 2012.

**LIBERTY MEDIA LLC AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

***Guarantees***

Liberty guarantees Starz Entertainment's obligations under certain of its studio output agreements. At June 30, 2008, Liberty's guarantee for obligations for films released by such date aggregated \$752 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 commitment of Starz Entertainment, a consolidated subsidiary of Liberty, Liberty has not recorded a separate liability for its guarantee of these obligations.

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

***Employment Contracts***

ANLBC and certain of its players and coaches have entered into long-term employment contracts whereby such individuals' compensation is guaranteed. Amounts due under guaranteed contracts as of June 30, 2008 aggregated \$118 million, which is payable as follows: \$43 million in 2008, \$43 million in 2009, \$11 million in 2010 and \$21 million thereafter. In addition to the foregoing amounts, certain players and coaches may earn incentive compensation under the terms of their employment contracts.

***Operating Leases***

Liberty and its subsidiaries lease business offices and other facilities, have entered into satellite transponder lease agreements and use certain equipment under lease arrangements.

***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 condensed consolidated financial statements.

**(15) Operating Segments**

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. Each of Liberty's businesses is separately managed. Liberty identifies its reportable segments as (A) those consolidated subsidiaries that represent 10% or more of its consolidated revenue, earnings

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

before income taxes or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of Liberty's consolidated earnings before income taxes.

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 non-financial measures such as subscriber growth, penetration, website visitors and active customers, as appropriate.

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

For the six months ended June 30, 2008, Liberty has identified the following businesses as its reportable segments:

**QVC** consolidated subsidiary that 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.

**Starz Entertainment** consolidated subsidiary that provides video programming distributed by cable operators, direct-to-home satellite providers, telephone companies, other distributors and the Internet throughout the United States.

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

**Performance Measures**

	Six months ended June 30,			
	2008		2007	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
	amounts in millions			
QVC	\$3,526	774	3,377	757
Starz Entertainment	548	142	519	128
Corporate and other	764	(60)	420	(45)
Consolidated Liberty	\$4,838	856	4,316	840

## LIBERTY MEDIA LLC AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Continued)

	Three months ended June 30,			
	2008		2007	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
amounts in millions				
QVC	\$1,761	387	1,693	383
Starz Entertainment	275	68	254	55
Corporate and other	451	(22)	246	(20)
Consolidated Liberty	\$2,487	433	2,193	418

## Other Information

	June 30, 2008		
	Total assets	Investments in affiliates	Capital expenditures
amounts in millions			
QVC	\$21,289		58
Starz Entertainment	2,703		2
Corporate and other	22,647	14,769	32
Consolidated Liberty	\$46,639	14,769	92

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
amounts in millions				
Consolidated segment Adjusted OIBDA	\$ 433	418	856	840
Stock-based compensation	(27)	(18)	(43)	(40)
Depreciation and amortization	(176)	(172)	(353)	(323)
Interest expense	(187)	(145)	(353)	(295)
Realized and unrealized gains (losses) on financial instruments, net	(37)	(251)	(322)	93
Gains (losses) on dispositions of assets, net	(1)	629	3,681	635
Other, net	258	118	420	218
Earnings from continuing operations before income taxes and minority interests	\$ 263	579	3,886	1,128

**Information Regarding Forward Looking Statements**

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, product and marketing strategies, new service offerings, revenue growth, business prospects and subscriber trends at QVC and Starz Entertainment, anticipated programming and marketing costs at Starz Entertainment, our expectations regarding Starz Media's results of operations for the next two to three years, our projected sources and uses of cash, the estimated value of our financial 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 our business. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but such statements necessarily involve risks and uncertainties and there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

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;

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;

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

continued consolidation of the broadband distribution and movie studio industries;

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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;

threatened terrorists 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.

For additional risk factors, please see Part 2, Item 1A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2008. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in its expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying condensed consolidated financial statements and the notes thereto and our Annual Report on Form 10-K for the year ended December 31, 2007.

### **Overview**

We own controlling and noncontrolling 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 reportable segments, are QVC and Starz Entertainment. 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 video 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., Starz Media, LLC, FUN Technologies, Inc., Atlanta National League Baseball Club, Inc., Liberty Sports Group, Leisure Arts, Inc., TruePosition, Inc., Backcountry.com, Inc., Bodybuilding.com, LLC, BuySeasons, Inc. and WFRV and WJMN Television Station, Inc. Provide operates an e-commerce marketplace of websites for perishable goods, including flowers, gourmet foods, fruits and desserts. Starz Media is focused on developing, acquiring, producing and distributing live-action, computer-generated and traditional television animated productions for the home video, film, broadcast and direct-to-consumer markets. FUN operates websites that offer casual gaming and fantasy sports services. ANLBC, which we acquired in May 2007, owns the Atlanta Braves, a major league baseball club, as well as certain of the Atlanta Braves' minor league clubs. Liberty Sports Group, which we acquired in February 2008, is comprised of three regional sports television networks FSN Rocky Mountain, FSN Northwest and FSN Pittsburgh. Leisure Arts, which we acquired in May 2007, publishes and markets needlework, craft, decorating, entertaining and other lifestyle interest "how-to" books. TruePosition provides equipment and technology that deliver location-based services to wireless users. Backcountry, which we acquired in June 2007, operates seven websites offering outdoor and backcountry sports gear and clothing.

Bodybuilding.com, which we acquired on December 31, 2007, manages two websites related to sports nutrition, body building and fitness. BuySeasons operates BuyCostumes.com, an online retailer of costumes, accessories, décor and party supplies. WFRV TV Station, which we acquired in April 2007, is a CBS broadcast affiliate that serves Green Bay, Wisconsin and Escanaba, Michigan.

In addition to the foregoing businesses, we hold an approximate 49% ownership interest in The DIRECTV Group, Inc. and an approximate 24% ownership interest in Expedia, Inc., which we account for as equity method investments, and we continue to maintain significant investments and related financial instruments in public companies such as Time Warner, IAC/InterActiveCorp and Sprint Nextel Corporation, which are accounted for at their respective fair market values and are included in corporate and other.

### **2008 Completed Transactions**

**News Corporation.** On February 27, 2008, we completed a transaction with News Corporation in which we exchanged all of our 512.6 million shares of News Corporation common stock valued at \$10,144 million on the closing date for a subsidiary of News Corporation that held an approximate 41% interest in DIRECTV, Liberty Sports Group and \$465 million in cash. In addition, we incurred \$21 million of acquisition costs. We recognized a pre-tax gain of \$3,666 million based on the difference between the fair value and the weighted average cost basis of the News Corporation shares exchanged.

### **Results of Operations**

To assist you in understanding and analyzing our business in the same manner we do, we have organized the following discussion of our results of operations into two parts: Consolidated Operating Results and Operating Results by Business.

In addition to the 2008 completion of the News Corporation Exchange, we completed several acquisitions in 2007 that impact the comparability of our 2007 and 2008 results of operations. Those acquisitions and the months in which they occurred are: WFRV TV Station in April 2007, ANLBC and Leisure Arts in May 2007, Backcountry in June 2007 and Bodybuilding in December 2007.

## Consolidated Operating Results

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
amounts in millions				
<b>Revenue</b>				
QVC	\$ 1,761	1,693	3,526	3,377
Starz Entertainment	275	254	548	519
Corporate and other	451	246	764	420
Consolidated Liberty	\$ 2,487	2,193	4,838	4,316
<b>Adjusted OIBDA</b>				
QVC	\$ 387	383	774	757
Starz Entertainment	68	55	142	128
Corporate and other	(22)	(20)	(60)	(45)
Consolidated Liberty	\$ 433	418	856	840
<b>Operating Income (Loss)</b>				
QVC	\$ 253	244	503	487
Starz Entertainment	53	42	113	102
Corporate and other	(76)	(58)	(156)	(112)
Consolidated Liberty	\$ 230	228	460	477

**Revenue.** Our consolidated revenue increased 13.4% and 12.1% for the three and six months ended June 30, 2008, respectively, as compared to the corresponding prior year period. In addition to the increases for QVC and Starz Entertainment, the three and six month increases are due primarily to our acquisitions of Liberty Sports Group, Bodybuilding and Backcountry, which in the aggregate generated \$133 million and \$227 million for the three and six months ended June 30, 2008, respectively. In addition, revenue for ANLBC, which we acquired in May 2007, increased \$46 million and \$52 million for the three and six month periods, respectively. See Operating Results by Business below for a more complete discussion of QVC's and Starz Entertainment's results of operations.

**Adjusted OIBDA.** We define Adjusted OIBDA as revenue less cost of sales, operating expenses and selling, general and administrative expenses (excluding stock-based 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 measure is an important indicator of the operational strength and performance of our businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock-based compensation, separately reported litigation settlements and restructuring and impairment charges that are included in the measurement of operating income pursuant to generally accepted accounting principles. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net earnings, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 15 to the accompanying condensed consolidated financial statements for a reconciliation of Adjusted OIBDA to Earnings (Loss) from Continuing Operations Before Income Taxes and Minority Interests.

Consolidated Adjusted OIBDA increased 3.6% and 1.9% for the three and six months ended June 30, 2008, respectively, as compared to the corresponding prior year period, as increases due to

acquisitions were offset by lower Adjusted OIBDA for Starz Media, ANLBC and TruePosition. ANLBC's business is seasonal with the vast majority of its revenue recognized in the second and third quarters of the year. Therefore, ANLBC generally operates at a loss in the first and fourth quarters.

**Stock-based compensation.** Stock-based compensation includes compensation related to (1) options and stock appreciation rights 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 \$43 million of stock compensation expense for the six months ended June 30, 2008, compared with \$40 million for the comparable period in 2007. As of June 30, 2008, the total unrecognized compensation cost related to our unvested equity awards was approximately \$69 million. Such amount will be recognized in our consolidated statements of operations over a weighted average period of approximately 2 years.

**Operating income.** Consolidated operating income was relatively flat for the three months ended June 30, 2008 and decreased 3.6% for the six months ended June 30, 2008, as compared to the corresponding prior year period. The decreases are due primarily to ANLBC, Starz Media and True Position partially offset by increases for Starz Entertainment and QVC. We currently expect Starz Media to continue incurring negative Adjusted OIBDA and operating losses for the next two to three years.

#### **Other Income and Expense**

**Interest expense.** Consolidated interest expense increased 29.0% and 19.7% for the three and six months ended June 30, 2008, respectively. Such increases are due to increased borrowings under our various credit facilities.

**Interest income parent.** Interest income earned from LMC increased in 2008 primarily due to additional advances to LMC.

**Dividend and interest income third party.** Consolidated dividend and interest income decreased for the three and six months ended June 30, 2008 due to lower invested cash balances and the elimination of News Corporation dividends as a result of the News Corporation Exchange.

**Share of earnings of affiliates.** Share of earnings of affiliates for the six months ended June 30, 2008 are primarily attributable to Expedia (\$35 million) and DIRECTV (\$190 million). Our share of earnings of DIRECTV include \$85 million of amortization (net of related taxes) of identifiable intangibles included in our excess basis as described in note 7 to the accompanying condensed consolidated financial statements.

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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:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	amounts in millions			
Statement 159 Securities(1)	\$ 139		(1,282)	
Senior exchangeable debentures	51	(109)	388	61
Equity collars	(335)	(135)	223	(71)
Borrowed shares	69	(40)	501	121
Other derivatives	39	33	(152)	(18)
	\$ (37)	(251)	(322)	93

(1)

See note 6 to the accompanying condensed consolidated financial statements for a discussion of our accounting for Statement 159 Securities.

**Gains on dispositions, net.** Gains on dispositions in 2008 include \$3,666 million related to the News Corporation Exchange.

**Income taxes.** For the six months ended June 30, 2008, we recorded pre-tax earnings of \$3,865 million and an income tax benefit of \$1,787 million. The News Corporation Exchange qualifies as an IRC Section 355 transaction, and therefore does not trigger federal or state income tax obligations. In addition, upon consummation of the exchange transaction, deferred tax liabilities previously recorded for the difference between our book and tax bases in our News Corporation investment in the amount of \$1,791 million were reversed with an offset to income tax benefit.

**Net earnings.** Our net earnings were \$5,652 million and \$1,410 million for the six months ended June 30, 2008 and 2007, respectively. The increase in net earnings is due to the aforementioned fluctuations in revenue and expenses. In addition, we recognized \$149 million of earnings from discontinued operations in 2007.

### **Operating Results by Business**

**QVC.** QVC is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs and via the Internet. In the United States, the program is aired live through its nationally televised shopping network 24 hours a day, 7 days a week ("QVC-US"). Internationally, QVC has electronic retailing program services 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.

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QVC's operating results are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	amounts in millions			
Net revenue	\$ 1,761	1,693	3,526	3,377
Cost of sales	(1,108)	(1,058)	(2,228)	(2,118)
Gross profit	653	635	1,298	1,259
Operating expenses	(170)	(164)	(339)	(322)
SG&A expenses (excluding stock-based compensation)	(96)	(88)	(185)	(180)
Adjusted OIBDA	387	383	774	757
Stock-based compensation SG&A	(5)	(5)	(10)	(16)
Depreciation and amortization	(129)	(134)	(261)	(254)
Operating income	\$ 253	244	503	487

Net revenue is generated in the following geographic areas:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	amounts in millions			
QVC-US	\$ 1,181	1,184	2,357	2,358
QVC-UK	163	160	335	312
QVC-Germany	224	198	473	413
QVC-Japan	193	151	361	294
	\$ 1,761	1,693	3,526	3,377

QVC's consolidated net revenue increased 4.0% and 4.4% during the three and six months ended June 30, 2008, respectively, as compared to the corresponding prior year period. The three month increase is comprised of \$60 million due to a 4.0% increase in the average sales price per unit ("ASP") and \$55 million due to favorable foreign currency rates. These increases were partially offset by an increase in estimated product returns and a decrease in the number of units shipped from 39.9 million in 2007 to 39.2 million in 2008. The six month increase in revenue is comprised of \$109 million due to favorable foreign currency rates and \$111 million due to a 3.6% increase in the ASP. These increases were partially offset by an increase in estimated product returns and a decrease in the number of units shipped from 78.8 million in 2007 to 77.8 million in 2008. Returns as a percent of gross product revenue increased from 19.0% to 20.1% and reflect a higher ASP and a shift in the mix from home products to accessories and jewelry products, which typically have higher return rates.

During the six months ended June 30, 2008, the changes in revenue and expenses were impacted by fluctuations 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 reported

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revenue and Adjusted OIBDA will be negatively impacted. The percentage increase in revenue for each of QVC's geographic areas in U.S. dollars and in local currency is as follows:

	Percentage increase (decrease) in net revenue			
	Three months ended		Six months ended	
	June 30, 2008		June 30, 2008	
	U.S. dollars	Local currency	U.S. dollars	Local currency
QVC-US	(0.3)%	(0.3)%	0.0%	0.0%
QVC-UK	1.9%	2.8%	7.4%	7.0%
QVC-Germany	13.1%	(3.1)%	14.5%	(0.7)%
QVC-Japan	27.8%	10.3%	22.8%	7.0%

Revenue for QVC-US continues to be negatively impacted by a slow retail environment with sales weaknesses experienced in each product category as well as higher return rates. Revenue growth for QVC-UK was lower in the second quarter of 2008, as compared to the first quarter of 2008, due to a slow down in the sales of electronics and home products. QVC-Germany showed a decrease in revenue in local currency in the second quarter of 2008, as compared to an increase in local currency in the first quarter of 2008, as it continues to encounter increased competition and a soft retail market. QVC-Japan increased net revenue in local currency during the three and six months ended June 30, 2008, as compared to the corresponding prior year period, as it continues to overcome the impacts of the heightened regulatory focus on health and beauty product presentations which began in March 2007 and caused QVC-Japan to remove a number of products from its programming.

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

QVC's gross profit percentage decreased approximately 40 basis points and 50 basis points during the three and six months ended June 30, 2008, respectively, as compared to the corresponding prior year period. Such decreases are due primarily to lower initial product margins in the home and apparel product areas and to a lesser extent, higher freight costs for product shipments.

QVC's operating expenses are principally comprised of commissions, order processing and customer service expenses, production costs, telecommunications expense and credit card processing fees. Operating expenses increased 3.7% and 5.3% for the three and six months ended June 30, 2008, respectively, as compared to the corresponding prior year period. Such increases are primarily due to the increase in sales and to an increase in commissions due to new fixed-rate agreements in QVC-UK and QVC-Japan. Operating expenses as a percent of revenue were fairly consistent in 2008 and 2007.

QVC's SG&A expenses include personnel, information technology, provision for doubtful accounts, marketing and advertising expenses. Such expenses increased 9.1% and 2.8% for the three and six months ended June 30, 2008, respectively, as compared to the corresponding prior year period due primarily to increases in personnel expenses and bad debt expense.

QVC's Adjusted OIBDA increased 1.0% and 2.2% for the three and six months ended June 30, 2008, respectively, as compared to the corresponding prior year period. Such increase in Adjusted

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OIBDA was less than the percentage increase in revenue primarily due to the decrease in gross profit percentage discussed above, as well as the increases noted in operating expenses.

**Starz Entertainment.** Starz Entertainment primarily provides video programming distributed by cable operators, direct-to-home satellite providers, telephone companies, other distributors and the Internet throughout the United States. Substantially all of Starz Entertainment's revenue is derived from the delivery of movies to subscribers under affiliation agreements with television video programming distributors. Some of Starz Entertainment's affiliation agreements provide for payments to Starz Entertainment based on the number of subscribers that receive Starz Entertainment's services. Starz Entertainment also has fixed-rate affiliation agreements with certain of its customers. Pursuant to these agreements, the customers generally pay an agreed-upon rate regardless of the number of subscribers. The agreed-upon rate is contractually increased annually or semi-annually as the case may be, and these agreements expire in 2008 through 2012. During the six months ended June 30, 2008, 70.7% of Starz Entertainment's revenue was generated by its four largest customers, Comcast Corporation, EchoStar Communications, DIRECTV and Time Warner Inc., each of which individually generated more than 10% of Starz Entertainment's revenue for such period. Starz Entertainment's affiliation agreements with DIRECTV and EchoStar expire in December 2008 and June 2009, respectively. In addition, the affiliation agreement with Time Warner has expired. Starz Entertainment is currently in negotiations with Time Warner regarding a new agreement. There can be no assurance that any new agreement with Time Warner will have economic terms comparable to the old agreement.

Starz Entertainment's operating results are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	amounts in millions			
Revenue	\$ 275	254	548	519
Operating expenses	(165)	(172)	(332)	(339)
SG&A expenses	(42)	(27)	(74)	(52)
Adjusted OIBDA	68	55	142	128
Stock-based compensation	(10)	(7)	(20)	(14)
Depreciation and amortization	(5)	(6)	(9)	(12)
Operating income	\$ 53	42	113	102

Starz Entertainment's revenue increased 8.3% and 5.6% for the three and six months ended June 30, 2008, respectively, as compared to the corresponding prior year period. Such increases are due primarily to higher rates under the new DIRECTV contract signed in the third quarter of 2007 (\$13 million and \$23 million for the three and six month periods, respectively) and to a lesser extent, increases in the weighted average number of subscription units (\$6 million and \$3 million, respectively). The Starz movie service and the Encore and Thematic Multiplex Channels ("EMP") movie service are the primary drivers of Starz Entertainment's revenue. Starz average subscription units increased 6.0% and 5.7% for the three and six months ended June 30, 2008, respectively, and EMP average subscription units increased 10.8% and 11.3% for the three and six months ended June 30, 2008, respectively. The effects of these increases in subscription units are somewhat mitigated by Starz Entertainment's fixed-rate affiliation agreements. In this regard, more than 75% of such subscription increases and approximately 36% of Starz Entertainment's revenue was earned under its fixed-rate affiliation agreements during the six months ended June 30, 2008.

At June 30, 2008, cable, DTH satellite, and other distribution media represented 66.7%, 28.9% and 4.4%, respectively, of Starz Entertainment's total subscription units.

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Starz Entertainment's operating expenses decreased for the three and six months ended June 30, 2008, as compared to the corresponding prior year period. Such decreases are due to decreases in programming license fees, which comprise approximately 94% of operating expenses. The three and six month decreases in programming license fees are due to lower bonus payment amortization (\$8 million and \$15 million) and a lower percentage of first-run movie exhibitions (which have a relatively higher cost per title) as compared to the number of library product exhibitions (\$15 million and \$16 million), partially offset by a higher effective rate for first-run movies exhibited in 2008 (\$16 million and \$25 million).

Starz Entertainment's SG&A expenses increased \$15 million and \$22 million for the three and six months ended June 30, 2008, respectively, as compared to the corresponding prior year period. Such increases are due primarily to higher marketing expenses related to a new branding campaign and higher salary and personnel expenses.

### **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 June 30, 2008 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal controls over financial reporting identified in connection with the evaluation described above that occurred during the six months ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.

LIBERTY MEDIA LLC

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

For information regarding institution of, or material changes in, material legal proceedings that have been reported this fiscal year, reference is made to Part I, Item 3 of our Annual Report on Form 10-K filed on March 25, 2008 and Part II, Item 1 of our Quarterly Report on Form 10-Q for the three months ended March 31, 2008 filed on May 13, 2008. There have been no material developments in such legal proceedings during the six months ended June 30, 2008, except as noted below.

**Liberty/IAC Litigation**

In January 2008, IAC, Barry Diller, Chairman of the Board and CEO of IAC, and our company filed a series of complaints against each other and the board of directors of IAC in the Court of Chancery (the "Chancery Court") of the State of Delaware relating to IAC's proposal to spin off certain of its businesses. All of these actions were consolidated by the Chancery Court on February 6, 2008 in the action styled *In re IAC/InterActiveCorp C.A. No. 3486-VCL*. After the trial of the consolidated action was concluded on March 14, 2008, the Chancery Court entered an opinion and order on March 28, 2008 dismissing certain of the actions in the consolidated action. We subsequently filed a notice of appeal of the Chancery Court's decision. On May 13, 2008, we entered into an agreement with IAC and Barry Diller to, among other things, settle the consolidated action. On May 28, 2008, the Chancery Court entered an order dismissing the actions in the consolidated action, without prejudice.

**Item 6. Exhibits**

(a) Exhibits

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

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

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Filed herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIBERTY MEDIA LLC

Date: August 13, 2008

By: /s/ GREGORY B. MAFFEI

\_\_\_\_\_  
Gregory B. Maffei  
President and Chief Executive Officer

Date: August 13, 2008

By: /s/ DAVID J.A. FLOWERS

\_\_\_\_\_  
David J.A. Flowers  
Senior Vice President and Treasurer  
(Principal Financial Officer)

Date: August 13, 2008

By: /s/ CHRISTOPHER W. SHEAN

\_\_\_\_\_  
Christopher W. Shean  
Senior Vice President and Controller  
(Principal Accounting Officer)

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**EXHIBIT INDEX**

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

- 31.1 Rule 13a-14(a)/15d-14(a) Certification\*
  - 31.2 Rule 13a-14(a)/15d-14(a) Certification\*
  - 31.3 Rule 13a-14(a)/15d-14(a) Certification\*
  - 32 Section 1350 Certification\*
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Filed herewith

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QuickLinks

[LIBERTY MEDIA LLC AND SUBSIDIARIES Condensed Consolidated Balance Sheets \(unaudited\)](#)

[LIBERTY MEDIA LLC AND SUBSIDIARIES Condensed Consolidated Balance Sheets \(Continued\) \(unaudited\)](#)

[LIBERTY MEDIA LLC AND SUBSIDIARIES Condensed Consolidated Statements of Operations \(unaudited\)](#)

[LIBERTY MEDIA LLC AND SUBSIDIARIES Condensed Consolidated Statements of Comprehensive Earnings \(unaudited\)](#)

[LIBERTY MEDIA LLC AND SUBSIDIARIES Condensed Consolidated Statements of Cash Flows \(unaudited\)](#)

[LIBERTY MEDIA LLC AND SUBSIDIARIES Condensed Consolidated Statement of Member's Equity \(unaudited\) Six months ended June 30, 2008](#)

[LIBERTY MEDIA LLC AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements](#)

[June 30, 2008 \(unaudited\)](#)

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