

LIBERTY MEDIA CORP /DE/
Form DEFM14A
April 07, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. 4)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Liberty Media Corporation

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
Liberty Media Corporation Series A common stock, par value \$.01 per share
Liberty Media Corporation Series B common stock, par value \$.01 per share

 - (2) Aggregate number of securities to which transaction applies:
2,737,156,091 shares of Liberty Media Corporation Series A common stock
150,818,180 shares of Liberty Media Corporation Series B common stock

 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
The filing fee is based upon the aggregate transaction value of \$22,699,588,435.30, which

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is based upon the averages of the high and low prices reported for the Liberty Media Corporation Series A common stock and Liberty Media Corporation Series B common stock, respectively, on the New York Stock Exchange on the applicable determination dates.

-
- (4) Proposed maximum aggregate value of transaction:
\$22,699,588,435.30
-

- (5) Total fee paid:
\$2,428,855.96, estimated pursuant to Section 14(g) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, on the basis of \$107.00 per million of the estimated maximum aggregate value of the transaction. Fee in the amount of \$2,354,418.35 was previously paid on December 16, 2005, with Liberty Media Corporation's preliminary proxy statement/prospectus on Schedule 14A (Commission File No. 001-16615). Fee in the amount of \$72,832.23 was previously paid on March 15, 2006 in connection with the filing of the Registration Statement on Form S-4 of Liberty Media Holding Corporation (Commission File No. 333-132452). Fee in the amount of \$1,605.38 was previously paid on April 6, 2006 in connection with the filing of Amendment No. 1 to the Registration Statement on Form S-4 of Liberty Media Holding Corporation, of which this proxy statement/prospectus forms a part.
-

ý Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
-

- (2) Form, Schedule or Registration Statement No.:
-

- (3) Filing Party:
-

- (4) Date Filed:
-

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LIBERTY MEDIA CORPORATION

12300 Liberty Boulevard
Englewood, Colorado 80112
(720) 875-5400

April 7, 2006

Dear Stockholder:

The 2006 annual meeting of stockholders of Liberty Media Corporation will be held at 9:00 a.m., local time, on May 9, 2006, at the Denver Marriott South at Park Meadows, 10345 Park Meadows Drive, Littleton, Colorado 80124, telephone (303) 925-0004. At the annual meeting you will be asked to consider and vote on the following:

the "**merger proposal**," a proposal to adopt a merger agreement pursuant to which our company would become a wholly-owned subsidiary of a newly formed holding company, which would become our publicly-traded parent company;

the "**charter proposals**," related proposals to amend and restate the certificate of incorporation of the new parent holding company to create two new tracking stocks, Liberty Interactive common stock and Liberty Capital common stock, and provide the board of directors with discretion to take actions regarding the conversion or redemption of one or more of such tracking stocks and the disposition of all or substantially all of the assets of either group to which such stocks are attributable without a further stockholder vote;

the "**election of directors proposal**," a proposal to elect Donne F. Fisher, Gregory B. Maffei and M. LaVoy Robison to serve as Class II directors of our board of directors until the 2009 annual meeting of stockholders;

the "**auditors ratification proposal**," a proposal to ratify the selection of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2006; and

such other business as may properly come before the annual meeting.

We refer to the merger proposal and the charter proposals collectively as the restructuring proposals and to the election of directors proposal and the auditors ratification proposal as the annual business matter proposals. We refer to the proposed holding company as New Liberty, to New Liberty's certificate of incorporation, as amended and restated in the manner contemplated by the charter proposals, as New Liberty's amended charter and to the transactions contemplated by the restructuring proposals as the restructuring. If the restructuring proposals are approved and implemented, then as a result of the restructuring, all of the outstanding common stock of Liberty Media Corporation, which we refer to as Old Liberty, will be exchanged in the merger for Liberty Interactive common stock and Liberty Capital common stock.

Each tracking stock is intended to track and reflect the separate economic performance of one of two newly designated groups, the Interactive Group in the case of the Liberty Interactive common stock and the Capital Group in the case of the Liberty Capital common stock. All of the businesses, assets and liabilities of New Liberty would be attributed to one of these two groups. The Interactive Group would initially have attributed to it our interests in our subsidiaries QVC, Inc. and Provide Commerce, Inc., our interest in our equity affiliate Expedia, Inc., our interest in IAC/InterActiveCorp and approximately \$4.48 billion principal amount of existing parent company debt (as of December 31, 2005). The Capital Group would have attributed to it all of our businesses, assets and liabilities that are not part of the Interactive Group and the principal amount of our remaining parent company debt, totaling approximately \$4.58 billion (as of December 31, 2005). **An investment in Liberty Interactive common stock, however, would not represent an ownership interest in the Interactive Group, and an investment in Liberty Capital common stock would not represent an ownership interest in the Capital Group. Rather, an investment in either of these tracking stocks would represent an ownership interest in one consolidated company, New Liberty.**

The restructuring would be effected by means of a merger, in which:

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each holder of Old Liberty Series A common stock would receive 0.25 of a share of Liberty Interactive Series A common stock and 0.05 of a share of Liberty Capital Series A common stock, for each share of Old Liberty Series A common stock held; and

each holder of Old Liberty Series B common stock would receive 0.25 of a share of Liberty Interactive Series B common stock and 0.05 of a share of Liberty Capital Series B common stock, for each share of Old Liberty Series B common stock held.

Also, in the merger, holders of Old Liberty Series A common stock and holders of Old Liberty Series B common stock would receive cash in lieu of any fractional shares of New Liberty common stock. As a result of the foregoing exchange ratios:

a holder must own 4 shares of Old Liberty common stock to receive one share of Liberty Interactive common stock in the merger; and

a holder must own 20 shares of Old Liberty common stock to receive one share of Liberty Capital common stock in the merger.

New Liberty's restated certificate of incorporation would also authorize the issuance of Liberty Interactive Series C common stock and Liberty Capital Series C common stock, none of which would be issued at the time the restructuring is completed.

As a result of the merger, Old Liberty would become a wholly-owned subsidiary of New Liberty, New Liberty would change its name to "Liberty Media Corporation" and would become our new publicly-traded parent company, and all persons who were stockholders of Old Liberty immediately prior to the merger would become stockholders of New Liberty (and not stockholders of only part of New Liberty). Immediately following the merger Old Liberty would convert to a limited liability company and change its name to "Liberty Media LLC." The management and board of directors of New Liberty following the merger would be identical to the management and board of directors of Old Liberty immediately prior to the merger.

We have applied to list Liberty Interactive Series A common stock and Liberty Interactive Series B common stock on the Nasdaq National Market under the symbols "LINTA" and "LINTB," respectively. We have applied to list Liberty Capital Series A common

stock and Liberty Capital Series B common stock on the Nasdaq National Market under the symbols "LCAPA" and "LCAPB," respectively.

This document describes the annual meeting, the restructuring proposals, the annual business matter proposals and related matters. Our board has approved all of the restructuring proposals and the annual business matter proposals and recommends that you vote "**FOR**" each of them.

Your vote is important, regardless of the number of shares you own. Whether or not you plan to attend the annual meeting, please vote as soon as possible to make sure that your shares are represented.

Thank you for your cooperation and continued support and interest in Liberty Media Corporation.

Very truly yours,

John C. Malone
Chairman of the Board

Gregory B. Maffei
President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the restructuring proposals or the securities being offered in the restructuring or has passed upon the adequacy or accuracy of the disclosure in this booklet. Any representation to the contrary is a criminal offense.

Investing in our securities involves risks. See Risk Factors beginning on page 17.

The accompanying proxy statement/prospectus is dated April 7, 2006 and is first being mailed on or about April 11, 2006 to our stockholders of record as of 5:00 p.m., New York City time, on April 6, 2006.

HOW YOU CAN FIND ADDITIONAL INFORMATION

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934 and, in accordance with the Exchange Act, we file periodic reports and other information with the Securities and Exchange Commission. In addition, this proxy statement/prospectus incorporates important business and financial information about us from other documents that are not included in or delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain copies of documents filed by us with the Securities and Exchange Commission, including the documents incorporated by reference in this proxy statement/prospectus, through the Securities and Exchange Commission website at <http://www.sec.gov> or by contacting us by writing or telephoning the office of Investor Relations:

Liberty Media Corporation
12300 Liberty Boulevard
Englewood, Colorado 80112
Telephone: (877) 772-1518

If you would like to request any documents from us please do so by May 1, 2006 in order to receive them before the annual meeting. If you request any documents, they will be mailed to you by first class mail, or another equally prompt means, within one business day after your request is received.

See "Additional Information Where You Can Find More Information" beginning on page 119.

LIBERTY MEDIA CORPORATION

12300 Liberty Boulevard
Englewood, Colorado 80112
(720) 875-5400

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

to be Held on May 9, 2006

NOTICE IS HEREBY GIVEN of the annual meeting of stockholders of Liberty Media Corporation to be held at 9:00 a.m., local time, on May 9, 2006, at the Denver Marriott South at Park Meadows, 10345 Park Meadows Drive, Littleton, Colorado 80124, telephone (303) 925-0004, to consider and vote on the following:

a proposal (which we refer to as the "**merger proposal**") to adopt a merger agreement pursuant to which Liberty Media Corporation would become a wholly-owned subsidiary of a newly formed holding company, which we refer to as New Liberty, and New Liberty would become our publicly-traded parent company;

a proposal (which we refer to as the "**tracking stock proposal**") to amend and restate New Liberty's certificate of incorporation to provide for the creation of two new tracking stocks, the Liberty Interactive common stock and the Liberty Capital common stock, intended to track and reflect the separate economic performance of a new Interactive Group and a new Capital Group, respectively, each of which tracking stocks will be divided into three series with different voting rights;

a proposal (which we refer to as the "**optional conversion proposal**") to amend and restate New Liberty's certificate of incorporation, in connection with the creation of the new tracking stocks, to provide the board of directors with discretion to convert shares of Liberty Interactive common stock into shares of Liberty Capital common stock (except during the first year after the issuance of the Liberty Interactive common stock, subject to an earlier "tax event");

a proposal (which we refer to as the "**optional redemption proposal**") to amend and restate New Liberty's certificate of incorporation, in connection with the creation of the new tracking stocks, to provide the board of directors with discretion to redeem shares of Liberty Interactive common stock or Liberty Capital common stock for shares of a company whose assets consist entirely of assets which were previously attributed to the group to which the redeemed shares relate;

a proposal (which we refer to as the "**group disposition proposal**") to amend and restate New Liberty's certificate of incorporation, in connection with the creation of the new tracking stocks, to provide the board of directors with discretion to permit the sale of all or substantially all of the assets of a group without a vote of the holders of the stock of that group, if the net proceeds of such sale are distributed to holders of that stock by means of a dividend or

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redemption, that stock is converted into stock of the other group or a combination of the foregoing is effected;

a proposal (which we refer to as the "**election of directors proposal**") to elect Donne F. Fisher, Gregory B. Maffei and M. LaVoy Robison to serve as Class II directors of our board of directors until the 2009 annual meeting of stockholders;

a proposal (which we refer to as the "**auditors ratification proposal**") to ratify the selection of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2006; and

such other business as may properly come before the annual meeting.

We refer to the merger proposal, the tracking stock proposal, the optional conversion proposal, the optional redemption proposal and the group disposition proposal collectively as the "**restructuring proposals**," and to the election of directors proposal and the auditors ratification proposal as the "**annual business matter proposals**." *Each of the merger proposal, the tracking stock proposal, the optional conversion proposal, the optional redemption proposal and the group disposition proposal is dependent on the others, and none of them will be implemented unless they are all approved at the annual meeting.*

We encourage you to read the accompanying proxy statement/prospectus in its entirety before voting. The form of New Liberty's proposed amended certificate of incorporation is included as Annex C to this proxy statement/prospectus. The merger agreement is included as Annex D to this proxy statement/prospectus.

Holders of Liberty Media Corporation Series A common stock, par value \$.01 per share, and Liberty Media Corporation Series B common stock, par value \$.01 per share, outstanding as of 5:00 p.m., New York City time, on April 6, 2006, the record date for the annual meeting, may vote at the annual meeting or at any adjournment or postponement thereof. Holders of record of Series A common stock and Series B common stock on the record date will vote together as a single class.

Our board of directors has carefully considered and approved all of the restructuring proposals and the annual business matter proposals and recommends that you vote "**FOR**" each of them.

YOUR VOTE IS IMPORTANT. We urge you to vote as soon as possible by telephone, Internet or mail.

By order of the board of directors,

Charles Y. Tanabe
*Senior Vice President, General Counsel and
Secretary*

Englewood, Colorado
April 7, 2006

Please execute and return the enclosed proxy promptly, whether or not you intend to be present at the annual meeting.

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EXPLANATORY NOTE

In this proxy statement/prospectus, we refer to Liberty Media Corporation as Old Liberty and to Liberty Media Holding Corporation as New Liberty. If the restructuring proposals are approved and the restructuring is completed, Old Liberty will become a wholly-owned subsidiary of New Liberty, and New Liberty will become our new parent holding company. Unless the context clearly indicates otherwise, all references to "we," "us," "our" and "our company" refer to Old Liberty before the restructuring is completed and New Liberty after the restructuring is completed.

QUESTIONS AND ANSWERS

The questions and answers below highlight only selected information about the annual meeting and how to vote your shares. You should read carefully the entire proxy statement/prospectus, including the appendices included herein, and the additional documents incorporated by reference in this proxy statement/prospectus to fully understand the restructuring proposals and the annual business matter proposals.

Q:
When and where is the annual meeting?

A:
The annual meeting will be held at 9:00 a.m., local time, on May 9, 2006 at the Denver Marriott South at Park Meadows, 10345 Park Meadows Drive, Littleton, Colorado 80124, telephone (303) 925-0004.

Q:
What is the record date for the annual meeting?

A:
The record date for the annual meeting is 5:00 p.m., New York City time, on April 6, 2006.

Q:
What is the purpose of the annual meeting?

A:
To consider and vote on the following:

the "**merger proposal**", which is a proposal to adopt a merger agreement pursuant to which Old Liberty would become a wholly-owned subsidiary of New Liberty, and New Liberty would become our publicly-traded parent company;

the "**charter proposals**", which are related proposals to amend and restate the certificate of incorporation of New Liberty to create two new tracking stocks and provide the board of directors with discretion to take actions regarding the conversion or redemption of one or more of such tracking stocks and the disposition of all or substantially all of the assets of either group to which such stocks are attributable without a further stockholder vote;

the "**election of directors proposal**", which is a proposal to elect Donne F. Fisher, Gregory B. Maffei and M. LaVoy Robison to serve as Class II directors of our board of directors until the 2009 annual meeting of stockholders;

the "**auditors ratification proposal**", which is a proposal to ratify the selection of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2006; and

such other business as may properly come before the annual meeting.

We refer to the merger proposal and the charter proposals together as the "**restructuring proposals**" and to the election of directors proposal and the auditors ratification proposal as the "**annual business matter proposals**." We refer to New Liberty's certificate of incorporation, as amended and restated in the manner contemplated by the charter proposals, as New Liberty's "**amended charter**" and to the transactions contemplated by the restructuring proposals collectively as the "**restructuring**."

Q:

What stockholder vote is required to approve each of the restructuring proposals?

A:

Each of the restructuring proposals requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of our Series A common stock and our Series B common stock outstanding on the record date that are present at the annual meeting in person or by proxy, voting together as a class.

Q: What stockholder vote is required to approve the election of directors proposal?

A: A plurality of the affirmative votes of the shares of our Series A common stock and our Series B common stock outstanding on the record date, voting together as a single class, that are voted in person or by proxy at the annual meeting is required to elect Messrs. Fisher, Maffei and Robison as Class II members of our board of directors. This means that the three nominees will be elected if they receive more affirmative votes than any other person.

Q: What stockholder vote is required to approve the auditors ratification proposal?

A: Approval of the auditors ratification proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of our Series A common stock and our Series B common stock outstanding on the record date that are present, in person or by proxy, at the annual meeting, voting together as a single class.

Q: How many votes do stockholders have?

A: Each share of our Series A common stock is entitled to one vote, and each share of our Series B common stock is entitled to ten votes on each of the restructuring proposals and each of the annual business matter proposals.

As of February 28, 2006, our directors and executive officers beneficially owned approximately 33.4% of the total voting power of our outstanding common stock.

Q: What if some of the restructuring proposals are approved, but not all of them?

A: If the merger proposal or any of the charter proposals is not approved by our stockholders at the annual meeting, then none of the restructuring proposals will be implemented, New Liberty will not become our parent holding company and the tracking stocks will not be issued.

Q: What do stockholders need to do to vote on the restructuring proposals and the annual business matter proposals?

A: After carefully reading and considering the information contained in this proxy statement/prospectus, stockholders should complete, sign and date their proxy cards and mail them in the enclosed return envelope, or vote by the telephone or through the Internet, in each case as soon as possible so that their shares are represented and voted at the annual meeting. Stockholders who have shares registered in the name of a broker, bank or other nominee should follow the voting instruction card provided by their broker, bank or other nominee in instructing them how to vote their shares.

Q: If shares are held in "street name" by a broker, bank or other nominee, will the broker, bank or other nominee vote those shares for the beneficial owner on the restructuring proposals and the annual business matter proposals?

A: If you hold your shares in street name and do not provide voting instructions to your broker, bank or other nominee, your shares will not be voted on the restructuring proposals or the annual business matter proposals. Accordingly, your broker, bank or other nominee will vote your shares held in "street name" only if you provide instructions on how to vote. You should follow the directions your broker, bank or other nominee provides to you regarding how to vote your shares.

Q: May stockholders change their vote on the restructuring proposals and the annual business matter proposals after returning a proxy card or voting by telephone or over the Internet?

A:

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Yes. Before the start of the annual meeting, stockholders who want to change their vote on the restructuring proposals and/or the annual business matter proposals may do so by telephone or over the Internet (if they originally voted by telephone or over the Internet), by voting in person at the annual meeting or by delivering a signed proxy revocation or a new signed proxy with a later

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date to Liberty Media Corporation, c/o Computershare Trust Company, N.A., P.O. Box 8078, Edison, NJ 08818.

Any signed proxy revocation or new signed proxy must be received before the start of the annual meeting. Your attendance at the annual meeting will not, by itself, revoke your proxy. If your shares are held in an account by a broker, bank or other nominee who you previously contacted with voting instructions, you should contact your broker, bank or other nominee to change your vote.

Q:
Should stockholders send their shares of Old Liberty common stock with their proxy cards?

A:
No. If the restructuring proposals are all approved, you will receive written instructions from the stock transfer agent after the restructuring is completed on how to exchange your shares of Old Liberty common stock for shares of Liberty Interactive common stock and Liberty Capital common stock and cash in lieu of any fractional share interests. Please do NOT send your shares of Old Liberty common stock with your proxy card.

Q:
When will the restructuring proposals be implemented?

A:
We currently expect that if each of the restructuring proposals is approved, we will complete the restructuring as soon as practicable after the annual meeting and the receipt by us and New Liberty of an opinion from Baker Botts L.L.P. with respect to certain tax matters. However, the board of directors has the right to abandon the restructuring at any time, even after the restructuring proposals have been approved by our stockholders.

Q:
If the restructuring proposals are implemented, will the annual business matter proposals also be implemented?

A:
If both the restructuring proposals and the annual business matters proposals are approved, then the annual business matter proposals will be applied to New Liberty.

Q:
What do I do if I have additional questions?

A:
If you have any questions prior to the annual meeting or if you would like copies of any document we refer to or that we incorporate by reference in this document, please call Investor Relations at (877) 722-1518.

SUMMARY

The following summary includes information contained elsewhere in this proxy statement/prospectus. This summary does not contain all of the important information that you should consider before voting on the restructuring proposals and the annual business matter proposals. You should read the entire proxy statement/prospectus carefully.

General

At the annual meeting you will be asked to vote on the annual business matter proposals and on five related proposals which will allow us to restructure our company and capitalization. If all of the restructuring proposals are approved, then, as a result of the restructuring, all of our outstanding common stock will be exchanged for two new tracking stocks, Liberty Interactive common stock and Liberty Capital common stock issued by New Liberty, a newly formed holding company. Each tracking stock to be issued in the proposed restructuring is intended to track and reflect the economic performance of one of two newly designated groups, the Interactive Group and the Capital Group, respectively. The Interactive Group will initially have attributed to it our interests in our subsidiaries QVC, Inc. and Provide Commerce, Inc., our interest in Expedia, Inc., which we currently account for as an equity affiliate, and our interest in IAC/InterActiveCorp. In addition, we will attribute \$4.48 billion principal amount (as of December 31, 2005) of our existing parent company debt to the Interactive Group. The Capital Group will have attributed to it all of our businesses, assets and liabilities that are not part of the Interactive Group and our remaining existing parent company debt totaling approximately \$4.58 billion (as of December 31, 2005).

Tracking stock is a type of common stock that the issuing company intends to reflect or "track" the economic performance of a particular business or "group," rather than the economic performance of the company as a whole. While the Interactive Group and the Capital Group will have separate collections of businesses, assets and liabilities attributed to them, neither group will be a separate legal entity and therefore cannot own assets, issue securities or enter into legally binding agreements. Holders of tracking stocks have no direct claim to the group's stock or assets and are not represented by a separate board of directors. Instead, holders of tracking stock are stockholders of the parent corporation, with a single board of directors and subject to all of the risks and liabilities of the parent corporation.

The restructuring would be effected by means of a merger, in which:

each holder of Old Liberty Series A common stock would receive (i) 0.25 of a share of Liberty Interactive Series A common stock and (ii) 0.05 of a share of Liberty Capital Series A common stock, for each share of Old Liberty Series A common stock held; and

each holder of Old Liberty Series B common stock would receive (i) 0.25 of a share of Liberty Interactive Series B common stock and (ii) 0.05 of a share of Liberty Capital Series B common stock, for each share of Old Liberty Series B common stock held;

with, in each case, cash in an amount equal to the value of any fractional share interests, determined as described under "The Restructuring Proposals The Merger Agreement and the Related Restructuring Conversion of Outstanding Shares of Old Liberty Common Stock."

New Liberty's amended charter would also authorize the issuance of Liberty Interactive Series C common stock and Liberty Capital Series C common stock, none of which would be issued at the time the restructuring is completed.

As a result of the merger, Old Liberty would become a wholly-owned subsidiary of New Liberty, New Liberty would be our new publicly-traded parent company and would be renamed "Liberty Media Corporation," and all persons who were stockholders of Old Liberty immediately prior to the merger

would be stockholders of New Liberty immediately after the merger. Immediately following the merger, Old Liberty would convert to a limited liability company and change its name to "Liberty Media LLC." The management and board of directors of New Liberty following the merger would be identical to the management and board of directors of Old Liberty immediately prior to the merger. In the case of the board, those directors who are elected at the annual meeting would become members of the board of directors of New Liberty. If the auditors ratification proposal is approved, KPMG LLP would become the auditors of New Liberty for its 2006 fiscal year.

Liberty Media Corporation

We are a holding company which, through our ownership of interests in subsidiaries and other companies, is primarily engaged in the electronic retailing, media, communications and entertainment industries. Through our subsidiaries, we operate in the United States, Europe and Asia. Our principal assets include our subsidiaries QVC, Inc. and Starz Entertainment Group LLC, our 50% interests in Court Television Network and GSN, and our strategic equity interests in IAC/InterActiveCorp, News Corporation and Expedia.

Our principal executive offices are located at 12300 Liberty Boulevard, Englewood, Colorado 80112. Our main telephone number is (720) 875-5400, and our company website is located at www.libertymedia.com. The information contained on our website is not a part of this proxy statement/prospectus.

Interactive Group

The term "Interactive Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which we attribute to it. If the restructuring is completed, our assets and businesses will be attributed to either the Interactive Group or the Capital Group. The assets and businesses we attribute to the Interactive Group will be those engaged in video and on-line commerce, and will initially include our interests in QVC, Inc., Provide Commerce, Inc., Expedia, Inc. and IAC/InterActiveCorp, and thereafter will include such other businesses that our board of directors may in the future determine to attribute to the Interactive Group, including such other businesses as we may acquire for the Interactive Group. In addition, we will attribute \$4.48 billion principal amount (as of December 31, 2005) of our existing parent company debt to the Interactive Group.

Capital Group

The term "Capital Group" also does not represent a separate legal entity, rather it represents all of our businesses, assets and liabilities other than those which will be attributed to the Interactive Group. If the restructuring is completed, the assets and businesses we attribute to the Capital Group will initially include our subsidiaries Starz Entertainment Group LLC, On Command Corporation, OpenTV Corp. and TruePosition, Inc., our equity affiliates Courtroom Television Network LLC, GSN, LLC and WildBlue Communications, Inc. and our interests in News Corporation, Time Warner, Inc., Sprint Nextel Corporation and Motorola, Inc., and thereafter will include such other businesses that our board of directors may in the future determine to attribute to the Capital Group, including such other businesses as we may acquire for the Capital Group. In addition, we will attribute \$4.58 billion principal amount (as of December 31, 2005) of our existing parent company debt to the Capital Group.

Recent Developments

On March 10, 2006, we acquired a 51% ownership interest (on a fully diluted basis) in FUN Technologies Inc. (FUN), which is the new parent company of FUN Technologies plc (Old FUN), for aggregate cash consideration of \$50 million and £83.7 million (\$145.4 million at the transaction date). In the transaction, the former stockholders of Old FUN received in the aggregate £83.7 million (which

was funded from our subscription proceeds) and a 49% ownership interest (on a fully diluted basis) in FUN. FUN is one of the market leaders in the provision of online gaming services. FUN's common stock is quoted on the London Stock Exchange's Alternative Investment Market and listed on the Toronto Stock Exchange under the symbol "FUN." Upon completion of the restructuring, we will attribute our interest in FUN to the Capital Group.

The Restructuring Proposals

The restructuring proposals are a group of related proposals that consist of the merger proposal, the tracking stock proposal, the optional conversion proposal, the optional redemption proposal and the group disposition proposal. If all five of these proposals are adopted and the restructuring is completed, you will become a stockholder of New Liberty pursuant to a merger transaction in which Old Liberty will become a wholly-owned subsidiary of New Liberty and New Liberty's certificate of incorporation will be amended and restated to provide for two tracking stocks, the Liberty Interactive common stock and the Liberty Capital common stock, the terms of which are described in detail under "The Restructuring Proposals Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock." If any of the five restructuring proposals is not approved at the annual meeting, then New Liberty will not become our parent company and the tracking stocks will not be issued.

Each of the restructuring proposals is described below. While each proposal is conditioned on approval of the other four proposals, we have "unbundled" them so that you may communicate your view to the board of directors as to each proposal being voted on.

The Merger Proposal

Under this proposal, you are being asked to adopt a merger agreement pursuant to which Liberty Media Corporation would become a wholly-owned subsidiary of New Liberty, which would become our new publicly-traded parent company.

The Tracking Stock Proposal

Under this proposal, you are being asked to approve an amendment and restatement to New Liberty's certificate of incorporation which would create two new tracking stocks, the Liberty Interactive common stock and the Liberty Capital common stock. In the merger, those tracking stocks would be exchanged for the shares of Old Liberty Series A common stock and Old Liberty Series B common stock which are currently outstanding. The tracking stocks are intended to track and reflect the separate economic performance of a new Interactive Group and a new Capital Group, respectively. Each tracking stock will be divided into three series with different voting rights.

The Optional Conversion Proposal

Under this proposal, you are being asked to approve, as part of the amendment and restatement to New Liberty's certificate of incorporation and in connection with the creation of the new tracking stocks, the creation of a right in favor of the board of directors to convert, in their sole discretion, shares of Liberty Interactive common stock into shares of Liberty Capital common stock (except during the first year after the issuance of the Liberty Interactive common stock, subject to an earlier "tax event"). See "The Restructuring Proposals Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Conversion and Exchange."

The Optional Redemption Proposal

Under this proposal, you are being asked to approve, as part of the amendment and restatement to New Liberty's certificate of incorporation and in connection with the creation of the new tracking stocks, the creation of a right in favor of the board of directors to redeem (in whole or in part) in their sole discretion, shares of Liberty Interactive common stock or Liberty Capital common stock for stock of a company whose assets consist entirely of assets which were previously attributed to the group to which the redeemed shares relate. See "The Restructuring Proposals Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Optional Redemption for Stock of a Subsidiary."

The Group Disposition Proposal

Under this proposal, you are being asked to approve, as part of the amendment and restatement to New Liberty's certificate of incorporation and in connection with the creation of the new tracking stocks, the creation of a right in favor of the board of directors to sell all or substantially all of the assets of a group without a vote of the holders of the stock of that group, if the net proceeds of the sale are distributed to holders of that stock by means of a dividend or redemption, that stock is converted into stock of the other group or a combination of the foregoing is effected. See "The Restructuring Proposals Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group."

Matters Relating to the Restructuring Proposals

The Merger and the Charter Amendment

If the restructuring proposals are approved at the annual meeting and the restructuring is completed, Old Liberty will become a wholly-owned subsidiary of New Liberty, and New Liberty's amended and restated certificate of incorporation (which we refer to as New Liberty's "**amended charter**") will provide for two separate tracking stocks, the Liberty Interactive common stock and the Liberty Capital common stock. Each of the Liberty Interactive common stock and the Liberty Capital common stock will be further divided into three series: the Series A common stock, the Series B common stock and the Series C common stock. The Series B common stock of each group will entitle the holder to 10 votes per share, the Series A common stock of each group will entitle the holder to 1 vote per share and the Series C common stock of each group will not entitle the holder to any votes, except to the extent required under Delaware law. Other differences between the common stocks of the two groups, and among the series of each group's common stock, are described under "The Restructuring Proposals Comparison of Old Liberty Common Stock with Liberty Interactive Common Stock and Liberty Capital Common Stock" and " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock."

Management and Allocation Policies

We have established policies designed to accomplish the fundamental objective of the restructuring, which is to separately present the businesses and operations of the Interactive Group and the Capital Group. These policies establish guidelines to help New Liberty attribute debt, corporate overhead, interest, taxes and other shared activities to either of the two groups.

Exchange of Old Liberty Common Stock

If the restructuring proposals are approved and the restructuring is completed, each share of outstanding Old Liberty Series A common stock will be exchanged for 0.25 shares of Liberty Interactive Series A common stock and 0.05 shares of Liberty Capital Series A common stock, and each share of outstanding Old Liberty Series B common stock will be exchanged for 0.25 shares of Liberty Interactive Series B common stock and 0.05 shares of Liberty Capital Series B common stock. No shares of Liberty Interactive Series C common stock or Liberty Capital Series C common stock will be issued at the time the restructuring is effected.

No fractional shares will be issued in the restructuring. Instead, holders will be entitled to receive cash in an amount equal to the value of any fractional share interests, determined as described under "The Restructuring Proposals The Merger Agreement and the Related Restructuring Conversion of Outstanding Shares of Old Liberty Common Stock."

Reasons for the Restructuring Proposals

We expect the implementation of the restructuring proposals to:

enable investors and analysts to focus more attention on the Interactive Group and the Capital Group, in an effort to encourage greater market recognition of the value of the businesses, assets and liabilities comprising the Interactive Group and the Capital Group and therefore New Liberty as a whole;

provide us with greater flexibility to raise capital and respond to strategic opportunities, including acquisitions, because it will allow New Liberty to issue a series and type of common stock that is appropriate under the circumstances; for example, there may be times when, because of industry-wide trends or other factors, one group's stock is valued more favorably than the other's, which would permit us to raise capital for that group on better terms than would be the case if there were no tracking stocks. We also believe that shares of a group for which an acquisition is being made is a preferable acquisition currency for sellers as they will have a greater opportunity to participate in any gains enjoyed by the acquired company after the acquisition; and

allow investors to invest in a series and type of New Liberty common stock that meets their particular investment objectives.

Not a Spin Off

Approval of the restructuring proposals will not result in a spin off of the assets attributed to either group. All of the businesses, assets and liabilities attributed to the Interactive Group and the Capital Group will remain part of New Liberty.

The board of directors believes that stockholder value may be enhanced by creating separate series of stock intended to track and reflect the economic performance of the businesses, assets and liabilities attributed to each of the Interactive Group and the Capital Group. The Interactive Group and the Capital Group, however, each currently benefit from the synergies of being part of the same company, such as an enhanced "consolidated" credit rating, possible tax benefits and shared treasury, finance and other functions. In the event the businesses of the Interactive Group and the Capital Group were divided into separate companies, through a spin off or similar transaction, these synergies and benefits would no longer be available. Under the restructuring proposals, the Interactive Group and the Capital Group will remain part of the same company and continue to benefit from the financial and other available synergies, while the creation of the two tracking stocks is expected to permit the public markets to focus on the separate performance of each group. It is possible, however, that the benefits of both groups being in the same company will not exceed the potential value that could be realized if the groups were separate companies.

Although we are not spinning off assets in the restructuring, New Liberty's amended charter will enable the board of directors, without seeking stockholder approval, but subject to certain other restrictions, to subsequently:

spin off some or all of the assets attributed to the Interactive Group by redeeming shares of Liberty Interactive common stock for stock of a subsidiary holding those assets; and/or

spin off some or all of the assets attributed to the Capital Group by redeeming shares of Liberty Capital common stock for stock of a subsidiary holding those assets.

Comparison of Old Liberty Common Stock with Liberty Interactive Common Stock and Liberty Capital Common Stock

If the restructuring proposals are approved and the restructuring is completed, holders of Liberty Interactive common stock and Liberty Capital common stock will have rights that differ significantly from those of holders of Old Liberty Series A common stock and Old Liberty Series B common stock. Please see "The Restructuring Proposals Comparison of Old Liberty Common Stock with Liberty Interactive Common Stock and Liberty Capital Common Stock" for a summary of these differences.

Effect on Management

No changes in management are currently planned as a result of the transactions contemplated by the restructuring proposals. If the restructuring proposals are approved, the directors elected at the annual meeting, together with the other members of Old Liberty's board, will comprise the board of directors of New Liberty.

Effect on Future Financial Statements

For purposes of preparing the financial information of the Interactive Group and the Capital Group included in this proxy statement/prospectus, we have attributed all of our consolidated assets, liabilities, revenue, expenses and cash flows to either the Interactive Group or the Capital Group. Following the restructuring, New Liberty will present consolidated financial statements and consolidating financial statement information that will show the attribution of New Liberty's assets, liabilities, revenue, expenses and cash flow to either the Interactive Group or the Capital Group. In addition, New Liberty will present earnings per share for each of the Liberty Interactive common stock and the Liberty Capital common stock. New Liberty will, however, retain all beneficial ownership and control of the assets and operations of both the Interactive Group and the Capital Group and you will be subject to the risks associated with an investment in New Liberty as a whole.

U.S. Federal Income Tax Considerations

It is a nonwaivable condition to the completion of the restructuring that we and New Liberty receive the opinion of Baker Botts L.L.P. to the effect that, under presently applicable U.S. federal income tax law:

the merger, together with the conversion of Old Liberty into a Delaware limited liability company, will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

the Liberty Interactive common stock and the Liberty Capital common stock issued in the restructuring will be treated as stock of New Liberty for U.S. federal income tax purposes;

except with respect to cash received instead of fractional shares, holders of Old Liberty common stock will not recognize income, gain or loss as a result of the exchange of their shares of Old Liberty common stock for shares of Liberty Interactive common stock and Liberty Capital common stock in the restructuring; and

the Liberty Interactive common stock and the Liberty Capital common stock issued in the restructuring will not constitute Section 306 stock within the meaning of Section 306(c) of the Internal Revenue Code.

However, there are no court decisions or other authorities bearing directly on transactions similar to the restructuring, and the IRS has announced that it will not issue rulings on the characterization of stock with terms similar to the Liberty Interactive common stock and the Liberty Capital common stock. Because an opinion of counsel is not equivalent to a ruling from the IRS, and there can be no assurance that the IRS would not challenge the conclusions expressed in such opinion, there exists some uncertainty about the tax treatment of the restructuring.

We have submitted a request for a private letter ruling from the IRS to the effect that the restructuring will not result in a "significant modification," and therefore a deemed exchange, of our outstanding publicly-traded debt for U.S. federal income tax purposes; however, the restructuring is not conditioned upon the receipt by us of the private letter ruling. Please see "Risk Factors Factors Relating to the Restructuring Proposals and Ownership of "Tracking Stock" If the restructuring was considered to result in a "significant modification" of our outstanding publicly-traded debt for U.S. federal income tax purposes, we would incur significant tax liabilities."

The tax consequences of the restructuring to you will depend on the facts of your own situation. We urge you to consult your tax advisors for a full description of the tax consequences of the restructuring to you.

No Appraisal Rights

Under Delaware General Corporation Law, you will not have appraisal rights in connection with the restructuring.

No Regulatory Approvals

No material state or federal regulatory approvals are required for the restructuring.

Recommendation of our Board of Directors

Our board of directors has approved all of the restructuring proposals and recommends that you vote "FOR" each of them.

Risk Factors

Please see "Risk Factors" starting on page 17 for a discussion of risks that should be considered in connection with the restructuring proposals and an investment in New Liberty stock.

No Material Refinancing or Further Restructuring Presently Contemplated

After the restructuring New Liberty may purchase common stock from time to time, subject to market conditions, up to a maximum aggregate purchase price of \$1 billion for shares of Liberty Capital common stock and a maximum aggregate purchase price of \$1 billion for shares of Liberty Interactive common stock. We have no plans at the present time to effect any other material repurchase of outstanding shares of Liberty Capital common stock or Liberty Interactive common stock or to effect any material refinancing of our outstanding parent company debt after the consummation of the restructuring. Consummation of the restructuring will not trigger any changes to, or accelerate any obligations under, our outstanding debt. None of our contracts with vendors, customers or others with whom we have a material business relationship will change as a result of the restructuring.

In March 2006, we increased the maximum borrowings allowed under QVC's bank credit facility from \$2 billion to \$3.5 billion. It is anticipated that any funds drawn under the increased facility will be used to fund QVC's capital and operating requirements and, after the consummation of the restructuring, other requirements of the Interactive Group including possible acquisitions and the repayment of parent company debt attributed to the Interactive Group as that debt becomes due.

Recommendations Regarding the Annual Business Matter Proposals

Our board of directors has approved both of the annual business matter proposals and recommends that you vote "**FOR**" the election of Messrs. Fisher, Maffei and Robison as Class II directors pursuant to the election of directors proposal and "**FOR**" the auditors ratification proposal. Prior to our board of directors approving the auditors ratification proposal, KPMG LLP was selected by the audit committee of our board of directors to serve as our independent auditors for the year ending December 31, 2006. If the restructuring proposals are adopted and implemented, the directors elected as Class II directors at the annual meeting will become Class II directors of New Liberty and KPMG LLP, if ratified as Old Liberty's auditors at the annual meeting, will be selected by the audit committee of the board of directors of New Liberty as New Liberty's auditors for its 2006 fiscal year.

Summary Attributed Historical Financial Data**Liberty Media Corporation**

The following table sets forth our historical financial data for each of the three years in the period ended December 31, 2005, and for each period presented pro forma earnings (loss) from continuing operations attributable to the Interactive Group and the Capital Group, and the earnings (loss) per common share attributable to the Liberty Interactive common stock and the Liberty Capital common stock. Such information is derived from, and should be read in conjunction with, our audited financial statements and the notes thereto for the years ended December 31, 2005, 2004 and 2003 included in Part I of Annex B to this proxy statement/prospectus.

December 31,		
2005	2004	2003

amounts in millions

Summary Balance Sheet Data:

Current assets	\$ 5,160	4,604	5,854
Cost investments	\$ 18,497	21,847	19,566
Equity investments	\$ 1,908	784	745
Total assets	\$ 41,952	50,209	54,225
Long-term debt, including current portion	\$ 7,750	8,576	9,432
Deferred income tax liabilities	\$ 8,728	9,701	9,729
Equity	\$ 19,120	24,586	28,842

Years ended December 31,		
2005	2004	2003(1)(2)
amounts in millions, except per share amounts		

Summary Operations Data:

Revenue	\$ 7,960	7,051	3,230
Operating income (loss)	\$ 897	725	(940)
Interest expense	\$ (623)	(615)	(508)
Earnings (loss) from continuing operations	\$ (64)	100	(1,229)
Earnings (loss) from continuing operations per common share	\$ (.02)	.04	(.44)
Pro forma earnings from continuing operations attributable to the Interactive Group	\$ 298	187	62
Pro forma earnings (loss) from continuing operations attributable to the Capital Group	\$ (362)	(87)	(1,291)
Pro forma earnings (loss) from continuing operations per common share(3):			
Attributable to the Liberty Interactive common stock	\$.43		
Attributable to the Liberty Capital common stock	\$ (2.58)		

- (1) We acquired a controlling interest in QVC in September 2003. We have consolidated QVC's results of operations and financial position since that date. Prior to such date, we accounted for QVC as an equity affiliate.
- (2) Operating loss and loss from continuing operations include an impairment charge of long-lived assets of \$1,362 million.
- (3) Pro forma earnings (loss) per common share attributable to the Interactive Group and the Capital Group for all periods presented has been calculated based on 700.7 million shares of Liberty Interactive common stock and 140.1 million shares of Liberty Capital common stock, which are the number of shares that would have been issued if the restructuring had been completed on December 31, 2005.

Interactive Group

The following table supplementally sets forth selected historical attributed financial data for the Interactive Group for each of the three years in the period ended December 31, 2005. Such attribution does not correspond to our historic classification of businesses for purposes of our operating segment presentation. For example, our Interactive Group Segment for the year ended December 31, 2004 included the results of operations and financial condition of certain subsidiaries, including On Command Corporation and OpenTV Corp., which are being attributed to the Capital Group in connection with the restructuring. Accordingly, the attributed financial information of the Capital Group presented below includes On Command Corporation and OpenTV Corp. for all periods presented. The following information is qualified in its entirety by, and should be read in conjunction with our audited financial statements and the notes thereto for the years ended December 31, 2005, 2004 and 2003 included in Part I of Annex B to this proxy statement/prospectus as well as the

attributed financial information included in Parts 2 and 3 of Annex B to this proxy statement/prospectus.

	December 31,		
	2005	2004	2003
amounts in millions			
Summary Balance Sheet Data:			
Current assets	\$ 2,716	2,423	2,225
Cost investments	\$ 2,084	3,844	4,697
Equity investments	\$ 1,229	78	77
Total assets	\$ 18,338	18,977	19,726
Long-term debt, including current portion	\$ 5,327	6,253	7,173
Deferred income tax liabilities	\$ 3,104	3,465	3,847
Attributed net assts	\$ 8,231	7,782	7,394
Years ended December 31,			
	2005	2004	2003(1)
amounts in millions			

Summary Operations Data:			
Revenue	\$ 6,501	5,687	1,973
Operating income	\$ 916	748	291
Interest expense	\$ (371)	(381)	(289)
Earnings from continuing operations	\$ 298	187	62

Capital Group

The following table supplementally sets forth selected historical attributed financial data for the Capital Group for each of the three years in the period ended December 31, 2005. Such attribution does not correspond to our historic classification of businesses for purposes of our operating segment presentation. For example, our Interactive Group Segment for the year ended December 31, 2004 included the results of operations and financial condition of certain subsidiaries, including On Command Corporation and OpenTV Corp., which are being attributed to the Capital Group in connection with the restructuring. Accordingly, the attributed financial information of the Capital Group presented below includes On Command Corporation and OpenTV Corp. for all periods presented. The following information is qualified in its entirety by, and should be read in conjunction with, our audited financial statements and the notes thereto for the years ended December 31, 2005, 2004 and 2003 included in Part 1 of Annex B to this proxy statement/prospectus as well as the attributed financial information included in Parts 2 and 3 of Annex B to this proxy statement/prospectus.

	December 31,		
	2005	2004	2003
amounts in millions			
Summary Balance Sheet Data:			
Current assets	\$ 2,580	2,269	3,629
Cost investments	\$ 16,413	18,003	14,869
Equity investments	\$ 679	706	668
Total assets	\$ 23,750	31,320	34,499
Long-term debt, including current portion	\$ 2,423	2,323	2,259
Deferred income tax liabilities	\$ 5,624	6,324	5,882
Attributed net assets	\$ 10,889	16,804	21,448

Years ended December 31,

2005	2004	2003(2)
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amounts in millions

Summary Operations Data:

Revenue	\$	1,459	1,364	1,257
Operating loss	\$	(19)	(23)	(1,231)
Interest expense	\$	(252)	(234)	(219)
Loss from continuing operations	\$	(362)	(87)	(1,291)

For more detailed financial information regarding the Interactive Group and the Capital Group, see the attributed financial information included in Parts 2 and 3 of Annex B to this proxy statement/prospectus, which includes managements' discussion and analysis of financial condition and results of operations for Old Liberty and each group for the periods presented above.

RISK FACTORS

In addition to the other information contained in, incorporated by reference in or included as an annex to this proxy statement/prospectus, you should carefully consider the following risk factors in deciding whether to vote to approve the restructuring proposals.

The risk factors described in this section have been separated into three groups:

risks that relate to the restructuring proposals and the ownership of tracking stock;

risks that relate to New Liberty and the businesses to be attributed to the Interactive Group and the Capital Group; and

those unique risks that relate to our subsidiary QVC, Inc.

The risks described below and elsewhere in this proxy statement/prospectus are not the only ones that relate to the restructuring proposals, our businesses or the proposed capitalization of New Liberty. The risks described below are considered to be the most material. However, there may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that also could have material adverse effects on our company or the businesses attributed to either or both of the Interactive Group and the Capital Group in the future. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

If any of the events described below were to occur, the businesses, prospects, financial condition, results of operations and/or cash flows of our company and either or both groups could be materially adversely affected. In any such case, the price of either or both the Liberty Interactive common stock and the Liberty Capital common stock could decline, perhaps significantly.

For the purposes of these risk factors, unless the context otherwise indicates, we have assumed that each of the restructuring proposals is approved and the existing Old Liberty common stock is exchanged for the Liberty Interactive common stock and the Liberty Capital common stock in the restructuring.

Factors Relating to the Restructuring Proposals and Ownership of "Tracking Stock"

If New Liberty's board of directors causes a separation of either group from New Liberty by redeeming stock of that group for stock of a "qualifying" subsidiary, New Liberty's stockholders may suffer a loss in value. New Liberty's board of directors may, without stockholder approval, redeem all or a portion of the shares of Liberty Interactive common stock or Liberty Capital common stock for shares of one or more of New Liberty's "qualifying" subsidiaries that own only assets and liabilities attributed to the Interactive Group or the Capital Group, as the case may be, provided that New Liberty's board of directors has determined that the redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) for U.S. federal income tax purposes to the holders of the common stock being redeemed. Such a redemption would result in the subsidiary or subsidiaries becoming independent of New Liberty. If New Liberty's board of directors chooses to redeem shares of common stock of a group:

the value of the subsidiary shares received in the redemption could be or become less than the value of the common stock redeemed; and/or

the market value of any remaining shares of Liberty Interactive common stock or Liberty Capital common stock could decrease from their market value immediately before the redemption.

The value of the subsidiary shares and/or the market value of the remaining shares of Liberty Interactive common stock and/or Liberty Capital common stock may decrease in part because the

subsidiary and/or New Liberty's remaining businesses may no longer benefit from the advantages of doing business under common ownership.

Holders of Liberty Interactive common stock and Liberty Capital common stock will be common stockholders of New Liberty and will, therefore, be subject to risks associated with an investment in New Liberty as a whole, even if a holder owns shares of only the common stock of one of New Liberty's groups. Even though we have attributed, for financial reporting purposes, all of our consolidated assets, liabilities, revenue, expenses and cash flows to each of the Interactive Group and the Capital Group in order to prepare the separate financial statement schedules included in this proxy statement/prospectus for each of those groups, New Liberty will retain legal title to all of its assets and its capitalization will not limit its legal responsibility, or that of its subsidiaries, for the liabilities included in either set of financial statement schedules. Holders of Liberty Interactive common stock and Liberty Capital common stock will not have any legal rights related to specific assets attributed to either of the Interactive Group or the Capital Group and, in any liquidation, holders of Liberty Interactive common stock and holders of Liberty Capital common stock will be entitled to receive a pro rata share of New Liberty's available net assets based on the number of liquidation units that are attributed to each group. See "The Restructuring Proposals Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Liquidation and Dissolution."

New Liberty could be required to use assets attributed to one group to pay liabilities attributed to another group. The assets attributed to one group are potentially subject to the liabilities attributed to the other group, even if those liabilities arise from lawsuits, contracts or indebtedness that are attributed to such other group. No provision of New Liberty's amended charter prevents New Liberty from satisfying liabilities of one group with assets of the other group, and New Liberty's creditors will not in any way be limited by New Liberty's tracking stock capitalization from proceeding against any assets they could have proceeded against prior to the approval of the restructuring proposals.

The market price of Liberty Interactive common stock and Liberty Capital common stock may not reflect the performance of the Interactive Group and the Capital Group, respectively, as we intend. We cannot assure you that the market price of the common stock of a group will, in fact, reflect the performance of the group of businesses, assets and liabilities attributed to that group. Holders of Liberty Interactive common stock and Liberty Capital common stock will be common stockholders of New Liberty as a whole and, as such, will be subject to all risks associated with an investment in New Liberty and all of its businesses, assets and liabilities. As a result, the market price of each series of stock of a group may simply reflect the performance of New Liberty as a whole or may more independently reflect the performance of some or all of the group of assets attributed to such group. In addition, investors may discount the value of the stock of a group because it is part of a common enterprise rather than a stand-alone entity.

The market price of the Liberty Interactive common stock and the Liberty Capital common stock may be volatile, could fluctuate substantially and could be affected by factors that do not affect traditional common stock. The market reaction to the establishment of the Liberty Interactive common stock and the Liberty Capital common stock is unpredictable. To the extent the market price of the Liberty Interactive common stock or the Liberty Capital common stock track the performance of more focused groups of businesses, assets and liabilities than those of New Liberty as a whole, the market prices of these stocks may be more volatile than the market price of existing common stock has historically been. The market prices of the Liberty Interactive common stock and the Liberty Capital common stock may be materially affected by, among other things:

actual or anticipated fluctuations in either group's operating results or in the operating results of particular companies attributable to either group;

potential acquisition activity by New Liberty or the companies in which New Liberty invests;

issuances of debt or equity securities to raise capital by New Liberty or the companies in which New Liberty invests and the manner in which that debt or the proceeds of an equity issuance are attributed to each of the groups;

changes in financial estimates by securities analysts regarding the Liberty Interactive common stock or the Liberty Capital common stock or the companies attributable to either group;

the complex nature and the potential difficulties investors may have in understanding the terms of the Liberty Interactive common stock and the Liberty Capital common stock, as well as concerns regarding the possible effect of certain of those terms on an investment in the stock relating to either group; or

general market conditions.

We cannot assure you that the combined market value of the Liberty Interactive common stock and the Liberty Capital common stock after the completion of the restructuring will equal or exceed the current combined market value of Old Liberty Series A common stock and Old Liberty Series B common stock. In addition, until an orderly trading market develops for the Liberty Interactive common stock and the Liberty Capital common stock following completion of the restructuring, the trading prices of the Liberty Capital common stock and Liberty Interactive common stock may fluctuate significantly.

The market value of both the Liberty Interactive common stock and the Liberty Capital common stock could be adversely affected by events involving the assets and businesses attributed to only one of such groups. Events relating to one of New Liberty's groups, such as earnings announcements or announcements of new products or services, acquisitions or dispositions that the market does not view favorably, may adversely affect the market value of the common stock of both of New Liberty's groups. Because New Liberty will be the issuer of both the Liberty Interactive common stock and the Liberty Capital common stock, an adverse market reaction to events relating to the assets and businesses attributed to one of New Liberty's groups may, by association, cause an adverse reaction to the common stock of the other group. This could occur even if the triggering event is not material to New Liberty as a whole. In addition, the incurrence of significant indebtedness by New Liberty or any of its subsidiaries on behalf of one group, including indebtedness incurred or assumed in connection with acquisitions of or investments in businesses, would continue to affect New Liberty's credit rating, and that of its subsidiaries, and therefore could increase the borrowing costs of businesses attributable to the other group or the borrowing costs of New Liberty as a whole.

New Liberty may not pay dividends equally or at all on Liberty Interactive common stock or Liberty Capital common stock. New Liberty does not presently intend to pay cash dividends on either the Liberty Interactive common stock or the Liberty Capital common stock for the foreseeable future. However, New Liberty has the right to pay dividends on the shares of each group of its common stock in equal or unequal amounts. In addition, any dividends or distributions on, or repurchases of, shares relating to either group will reduce New Liberty's assets legally available to be paid as dividends on the shares relating to the other group.

The adoption of a tracking stock capital structure could create conflicts of interest, and New Liberty's board of directors may make decisions that could adversely affect only some holders of New Liberty's common stock. The adoption of a tracking stock capital structure could give rise to occasions when the interests of holders of stock of one group might diverge or appear to diverge from the interests of holders of stock of the other group. In addition, given the nature of their businesses, there may be inherent conflicts of interests between the Interactive Group and the Capital Group. New Liberty's officers and directors owe fiduciary duties to all of its stockholders. The fiduciary duties owed by such officers and directors are to New Liberty as a whole, and decisions deemed to be in the best interest of

New Liberty may not be in the best interest of a particular group when considered independently. Examples include:

decisions as to the terms of any business relationships that may be created between the Interactive Group and the Capital Group or the terms of any transfer of assets between the groups;

decisions as to the allocation of consideration between the holders of the Liberty Interactive common stock and the Liberty Capital common stock, or between the stocks relating to either group, to be received in connection with a merger involving New Liberty;

decisions as to the allocation of corporate opportunities between the two groups, especially where the opportunities might meet the strategic business objectives of both groups;

decisions as to operational and financial matters that could be considered detrimental to one group but beneficial to the other;

decisions as to the conversion of shares of Liberty Interactive common stock into shares of Liberty Capital common stock;

decisions regarding the creation of, and, if created, the subsequent increase or decrease of any inter-group interest that one group may own in the other;

decisions as to the internal or external financing attributable to business or assets attributed to either group;

decisions as to the dispositions of assets of either group; and

decisions as to the payment of dividends on the stock relating to either group.

In addition, if directors own disproportionate interests (in percentage or value terms) in the Liberty Interactive common stock or the Liberty Capital common stock, that disparity could create or appear to create conflicts of interest when they are faced with decisions that could have different implications for the holders of the Liberty Interactive common stock and the Liberty Capital common stock.

Other than pursuant to the management and allocation policies described in this proxy statement/prospectus, we have not adopted any specific procedures for consideration of matters involving a divergence of interests among holders of shares of stock relating to the two different groups, or among holders of different series of stock relating to a specific group. See "The Restructuring Proposals Management and Allocation Policies." Rather than develop additional specific procedures in advance, New Liberty's board of directors intends to exercise its judgment from time to time, depending on the circumstances, as to how best to:

obtain information regarding the divergence (or potential divergence) of interests;

determine under what circumstances to seek the assistance of outside advisers;

determine whether a committee of its board of directors should be appointed to address a specific matter and the appropriate members of that committee; and

assess what is in its best interests and the best interests of all of its stockholders.

Our board of directors believes the advantage of retaining flexibility in determining how to fulfill its responsibilities in any such circumstances as they may arise outweighs any perceived advantages of adopting additional specific procedures in advance.

Holders of shares of stock relating to a particular group may not have any remedies if any action by New Liberty's directors or officers has an adverse effect on only that stock, or on a particular series of that stock. Principles of Delaware law and the provisions of New Liberty's amended charter may protect decisions of New Liberty's board of directors that have a disparate impact upon holders of shares of stock relating to a particular group, or upon holders of any series of stock relating to a particular group. Under Delaware law, the board of directors has a duty to act with due care and in the best interests of all of New Liberty's stockholders, regardless of the stock, or series, they hold. Principles of Delaware law established in cases involving differing treatment of multiple classes or series of stock provide that a board of directors owes an equal duty to all common stockholders and does not have separate or additional duties to any subset of stockholders. Recent judicial opinions in Delaware involving tracking stocks have established that decisions by directors or officers involving differing treatment of holders of tracking stocks may be judged under the business judgment rule. The business judgment rule generally provides that a director or officer of New Liberty may be deemed to have satisfied his or her fiduciary duties to New Liberty if that person acts in a manner he or she believes in good faith to be in the best interests of New Liberty as a whole, and not of any single group of New Liberty's stockholders. As a result, in some circumstances, New Liberty's directors or officers may be required to make a decision that is viewed as adverse to the holders of shares relating to a particular group or to the holders of a particular series of that stock. Therefore, under the principles of Delaware law referred to above and the business judgment rule, you may not be able to challenge decisions that you believe have a disparate impact upon the stockholders of the two groups if New Liberty's board of directors is disinterested, adequately informed with respect to its decisions and acts in good faith, on behalf of all its stockholders.

New Liberty's board of directors may change the management and allocation policies to the detriment of either group without stockholder approval. Our board of directors has adopted certain management and allocation policies to serve as guidelines in making decisions regarding the relationships between the Interactive Group and the Capital Group with respect to matters such as tax liabilities and benefits, inter-group loans, attribution of assets acquired after the restructuring to either group, financing alternatives, corporate opportunities and similar items. See "The Restructuring Proposals Management and Allocation Policies." New Liberty's board of directors may at any time change, or make exceptions to these policies. Because these policies relate to matters concerning the day to day management of New Liberty as opposed to significant corporate actions, such as a merger involving New Liberty or a sale of substantially all of its assets, no stockholder approval is required with respect to their adoption or amendment. A decision to change, or make exceptions to, these policies or adopt additional policies could disadvantage one group while advantaging the other group.

Stockholders will not vote on how to attribute consideration received in connection with a merger involving New Liberty among holders of Liberty Interactive common stock and Liberty Capital common stock. New Liberty's amended charter does not contain any provisions governing how consideration received in connection with a merger or consolidation involving New Liberty is to be attributed to the holders of Liberty Interactive common stock and holders of Liberty Capital common stock or to the holders of different series of stock, and neither the holders of Liberty Interactive common stock nor the holders of Liberty Capital common stock will have a separate class vote in the event of such a merger or consolidation. Consistent with applicable principles of Delaware law, New Liberty's board of directors will seek to divide the type and amount of consideration received in a merger or consolidation involving New Liberty between holders of Liberty Interactive common stock and Liberty Capital common stock in a fair manner. As the different ways the board of directors may divide the consideration between holders of stock relating to the different groups, and among holders of different series of stock, might have materially different results, the consideration to be received by holders of Liberty Interactive common stock and Liberty Capital common stock in any such merger or consolidation may be materially less valuable than the consideration they would have received if they had a separate class vote on such merger or consolidation.

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New Liberty may dispose of assets of either the Interactive Group or the Capital Group without your approval. Delaware law requires stockholder approval only for a sale or other disposition of all or substantially all of the assets of New Liberty taken as a whole, and New Liberty's amended charter does not require a separate class vote in the case of a sale of a significant amount of assets of either group. As long as the assets attributed to either the Interactive Group or the Capital Group represent less than substantially all of New Liberty's assets, New Liberty may approve sales and other dispositions of any amount of the assets of that group without any stockholder approval. Based on the initial composition of the groups, we believe that a sale of all or substantially all of the assets of either group, on a stand alone basis, would not be considered a sale of substantially all of the assets of New Liberty requiring stockholder approval.

If New Liberty disposes of all or substantially all of the assets of either group (which means, for this purpose, assets representing 80% of the fair market value of the total assets of the disposing group, as determined by New Liberty's board of directors), New Liberty would be required, if the disposition is not an exempt disposition under the terms of New Liberty's amended charter, to choose one or more of the following three alternatives:

declare and pay a dividend on the disposing group's common stock;

redeem shares of the disposing group's common stock according to ratios set out in New Liberty's amended charter and described in this document under "Description of Liberty Interactive Common Stock and Liberty Capital Common Stock Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group;" and/or

convert all of the disposing group's outstanding common stock into common stock of the other group.

In this type of a transaction, holders of the disposing group's common stock may receive less value than the value that a third-party buyer might pay for all or substantially all of the assets of the disposing group.

New Liberty's board of directors will decide, in its sole discretion, how to proceed and is not required to select the option that would result in the highest value to holders of either group of New Liberty's common stock.

Holders of Liberty Interactive common stock or Liberty Capital common stock may receive less consideration upon a sale of the assets attributed to that group than if that group were a separate company. If the Interactive Group or the Capital Group were a separate, independent company and its shares were acquired by another person, certain costs of that sale, including corporate level taxes, might not be payable in connection with that acquisition. As a result, stockholders of a separate, independent company might receive a greater amount of proceeds than the holders of Liberty Interactive common stock or the Liberty Capital common stock would receive upon a sale of all or substantially all of the assets of the group to which their shares relate. In addition, we cannot assure you that in the event of such a sale the per share consideration to be paid to holders of Liberty Interactive common stock or Liberty Capital common stock, as the case may be, will be equal to or more than the per share value of that share of stock prior to or after the announcement of a sale of all or substantially all of the assets of the applicable group.

If New Liberty sells all or substantially all of the assets attributed to the Interactive Group or the Capital Group, New Liberty's board of directors may take actions with respect to the shares of common stock of that group which could result in a loss of value for stockholders. New Liberty has the right to dispose of the assets of the Interactive Group or the Capital Group, in whole or in part. If New Liberty disposes of all or substantially all of the assets of either group, then New Liberty's board of directors can decide to: (i) dividend an amount equal to the net proceeds to holders of that group's common stock, on a *pro rata* basis; (ii) convert the shares of that group's common stock into shares of the other group's common stock at a 110% premium to market; (iii) redeem shares of that group's common stock for cash, securities or other assets with a fair value equal to such net proceeds; or (iv) do a

combination of the foregoing. There is no requirement that the action taken by the board of directors be tax-free to the holders of the shares of common stock of that group. In any of the foregoing cases, stockholders could suffer a loss in the value of their investment in New Liberty.

Following the first anniversary of the restructuring (absent an earlier triggering event), New Liberty's board of directors may in its sole discretion elect to convert Liberty Interactive common stock into Liberty Capital common stock, thereby changing the nature of your investment and possibly diluting your economic interest in New Liberty, which could result in a loss in value to you. New Liberty's amended charter will permit New Liberty's board of directors, in its sole discretion, to convert all of the outstanding shares of Liberty Interactive common stock into shares of Liberty Capital common stock on the terms described under "The Restructuring Proposals Description of Liberty Interactive Common Stock and Liberty Capital Common Stock Conversion and Exchange." A conversion would preclude the holders of stock in both groups from retaining their investment in a security that is intended to reflect separately the performance of the relevant group. We cannot predict the impact on the market value of New Liberty's stock of (1) New Liberty's board of directors' ability to effect any such conversion or (2) the exercise of this conversion right by New Liberty. In addition, New Liberty's board of directors may effect such a conversion at a time when the market value of its stock could cause the stockholders of one group to be disadvantaged.

Holders of Liberty Interactive common stock and holders of Liberty Capital common stock will vote together and will have limited separate voting rights. Holders of Liberty Interactive common stock and Liberty Capital common stock will vote together as a single class, except in certain limited circumstances prescribed by New Liberty's amended charter and under Delaware law. Each share of Series B common stock of each group will have ten votes per share, and each share of Series A common stock of each group will have one vote per share. Holders of Series C common stock of either group will have no voting rights, other than those required under Delaware law. When holders of Liberty Interactive common stock and Liberty Capital common stock vote together as a single class, holders having a majority of the votes will be in a position to control the outcome of the vote even if the matter involves a conflict of interest among New Liberty's stockholders or has a greater impact on one group than the other.

New Liberty's capital structure as well as the fact that the Interactive Group and the Capital Group are not independent companies may inhibit or prevent acquisition bids for the Interactive Group or the Capital Group. If the Interactive Group and the Capital Group were separate independent companies, any person interested in acquiring either the Interactive Group or the Capital Group without negotiating with management could seek control of that group by obtaining control of its outstanding voting stock, by means of a tender offer, or by means of a proxy contest. Although we intend Liberty Interactive common stock and Liberty Capital common stock to reflect the separate economic performance of the Interactive Group and the Capital Group, respectively, those groups are not separate entities and a person interested in acquiring only one group without negotiation with New Liberty's management could obtain control of that group only by obtaining control of a majority in voting power of all of the outstanding shares of common stock of New Liberty. The existence of shares of common stock, and different series of shares, relating to different groups could present complexities and in certain circumstances pose obstacles, financial and otherwise, to an acquiring person that are not present in companies which do not have capital structures similar to New Liberty's.

If either the Liberty Interactive common stock or the Liberty Capital common stock or both, were not treated as stock of New Liberty for tax purposes, several adverse tax consequences would result to you and to us. While we believe that no income, gain or loss will be recognized by you or us for U.S. federal income tax purposes as a result of the restructuring, except for any cash received by you instead of fractional shares of Liberty Interactive common stock or Liberty Capital common stock, there are no court decisions or other authorities bearing directly on the effect of issuing stock with features similar to the Liberty Interactive common stock and the Liberty Capital common stock. In addition, the IRS has announced that it will not issue rulings on the classification of an instrument with terms similar to

the Liberty Interactive common stock or the Liberty Capital common stock. Therefore, the tax treatment of the restructuring is subject to some uncertainty. It is possible, therefore, that the IRS could successfully assert that the issuance of Liberty Interactive common stock or Liberty Capital common stock or both in the restructuring in exchange for Old Liberty common stock is taxable to you and/or to us.

If Liberty Interactive common stock or Liberty Capital common stock or both represent property other than stock of New Liberty (which we refer to as Other Property), the receipt of Liberty Interactive common stock or Liberty Capital common stock by you might be treated as a fully taxable dividend in an amount equal to the fair market value of such stock constituting Other Property (subject in the case of stockholders that are corporations, to any applicable dividends received deduction) or might be treated as a distribution in complete liquidation of our company, in which case you would recognize gain or loss with respect to your shares of outstanding Old Liberty common stock held immediately prior to the restructuring. Furthermore, we or our subsidiaries would recognize a significant taxable gain as a result of the restructuring in an amount equal to the excess of the fair market value of such stock constituting Other Property over its federal income tax basis to us or our subsidiaries allocable to such Other Property. Pursuant to the management and allocation policies (described elsewhere in this proxy statement/prospectus), the cash for the payment of these taxes would be drawn from funds attributed to the Capital Group. In addition, we may no longer be able to file a consolidated U.S. federal income tax return which includes eligible entities attributed to both the Interactive Group and the Capital Group. These tax liabilities, if they arise, would be likely to have a material adverse effect on us and each group.

Changes in the tax law or in the interpretation of current tax law may result in the cessation of the issuance of shares of Liberty Interactive common stock and/or Liberty Capital common stock or the conversion of Liberty Interactive common stock into Liberty Capital common stock. If, due to a change in tax law or a change in the interpretation of current tax law, there are adverse tax consequences resulting from the issuance of Liberty Interactive common stock and/or Liberty Capital common stock, it is possible that New Liberty would not issue additional shares of Liberty Interactive common stock and/or Liberty Capital common stock even if New Liberty would otherwise choose to do so. This possibility could affect the value of Liberty Interactive common stock and Liberty Capital common stock then outstanding. In addition, New Liberty may elect to convert Liberty Interactive common stock into Liberty Capital common stock, thereby diluting the interests of holders of Liberty Capital common stock and changing the nature of your investment, which could result in a loss in value.

If the restructuring was considered to result in a "significant modification" of our outstanding publicly-traded debt for U.S. federal income tax purposes, we would incur significant tax liabilities. We have submitted a request for a private letter ruling from the IRS to the effect that the restructuring will not result in a "significant modification" of our outstanding publicly-traded debt under certain Treasury Regulations. However, the restructuring is not conditioned upon the receipt by us of the private letter ruling, and we could determine to proceed with the restructuring even though we have not obtained the requested ruling. Further, although any private letter ruling that is obtained would generally be binding on the IRS, the validity of such ruling will be subject to the accuracy of factual statements and representations made by us. If any of these statements or representations, or any assumptions made by the IRS in granting such ruling, were incorrect or untrue in any material respect, or the facts upon which any ruling is based are different from the facts at the effective time of either the merger or the conversion of Old Liberty to a Delaware limited liability company, any ruling that is obtained could be invalidated.

There is some uncertainty as to whether the restructuring will result in a "significant modification" of our outstanding publicly-traded debt for U.S. federal income tax purposes, and no opinion of counsel has been obtained by us on this issue as of the date of this proxy statement/prospectus. If the restructuring was considered to result in a "significant modification" of our outstanding publicly-traded debt, it is expected that we would incur significant tax liabilities as a result of the deemed exchange of

our outstanding publicly-traded debt for U.S. federal income tax purposes. Based upon bid prices of our outstanding publicly-traded debt as of March 31, 2006, we estimate that such tax liabilities (determined without regard to any tax benefits that we may otherwise have available) could be approximately \$900 million. These tax liabilities, if they were to arise, would be likely to have a material adverse effect on us and each group. Pursuant to the management and allocation policies (described elsewhere in this proxy statement/prospectus), the cash for the payment of these taxes would be drawn from the group to which the underlying series of our outstanding publicly-traded debt is attributed. We expect that most of these tax liabilities, if they were to arise, would result from a deemed exchange of our exchangeable debentures, and accordingly, that most of these tax liabilities would be attributed to the Capital Group.

It may be difficult for a third party to acquire New Liberty, even if doing so may be beneficial to New Liberty's stockholders. Certain provisions of New Liberty's amended charter and bylaws may discourage, delay or prevent a change in control of New Liberty that a stockholder may consider favorable. These provisions include:

authorizing a capital structure with multiple series of common stock, a Series B common stock of each group that entitles the holders to ten votes per share, a Series A common stock of each group that entitles the holder to one vote per share, and a Series C common stock of each group that except as otherwise required by applicable law, entitles the holder to no voting rights;

authorizing the issuance of "blank check" preferred stock that could be issued by New Liberty's board of directors to increase the number of outstanding shares and thwart a takeover attempt;

classifying New Liberty's board of directors with staggered three-year terms, which may lengthen the time required to gain control of New Liberty's board of directors;

limiting who may call special meetings of stockholders;

prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of the stockholders; and

establishing advance notice requirements for nominations of candidates for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

New Liberty's chairman, John C. Malone, will have the power to direct the vote of approximately 30% of New Liberty's outstanding voting power and approximately 89% of New Liberty's outstanding Series B shares.

Immediately following the restructuring, each holder of existing Old Liberty common stock will receive New Liberty common stock representing the same aggregate percentage voting power as that holder held in Old Liberty immediately prior to the restructuring. However, as a result of the conversion ratios applied in the restructuring, immediately after the issuance of the tracking stocks, holders of Liberty Interactive common stock, in the aggregate, will hold approximately 83% of the total voting power of New Liberty's common stock.

Factors Relating to New Liberty, the Interactive Group and the Capital Group

The risks described below apply to New Liberty and to the businesses, assets and liabilities attributable to both the Interactive Group and the Capital Group.

The historical financial information of the Interactive Group and the Capital Group included in this proxy statement/prospectus may not necessarily reflect their results as separate companies. One of the reasons for the creation of a tracking stock is to permit equity investors to apply more specific criteria in valuing the shares of a particular group, such as comparisons of earnings multiples with those of other companies in the same business sector. In valuing shares of Liberty Interactive common stock and Liberty Capital common stock, investors should recognize that the historical financial information of the Interactive Group and the Capital Group included in this proxy statement/prospectus has been extracted from our consolidated financial statements and may not necessarily reflect what the Interactive Group's and the Capital Group's results of operations, financial condition and cash flows

would have been had the Interactive Group and the Capital Group been separate, stand-alone entities pursuing independent strategies during the periods presented.

New Liberty will not have the right to manage its business affiliates, which means it is not able to cause those affiliates to operate in a manner that is favorable to New Liberty. New Liberty will not have the right to manage the businesses or affairs of any of its business affiliates (generally those companies in which it has less than a majority stake) attributed to either the Interactive Group or the Capital Group. Rather, New Liberty's rights may take the form of representation on the board of directors or a partners' or similar committee that supervises management or possession of veto rights over significant or extraordinary actions. The scope of New Liberty's veto rights vary from agreement to agreement. Although New Liberty's board representation and veto rights may enable it to exercise influence over the management or policies of a business affiliate, enable it to prevent the sale of material assets by a business affiliate in which it owns less than a majority voting interest or prevent it from paying dividends or making distributions to its stockholders or partners, they will not enable New Liberty to cause these actions to be taken.

If New Liberty fails to meet required capital calls to a business affiliate, it could be forced to sell its interest in that company, its interest in that company could be diluted or it could forfeit important rights. New Liberty is a party to stockholder and partnership agreements relating to its equity interest in business affiliates that provide for possible capital calls on stockholders and partners. New Liberty's failure to meet a capital call, or other commitment to provide capital or loans to a particular business affiliate, may have adverse consequences to New Liberty and the group to which that business affiliate is attributed. These consequences may include, among others, the dilution of New Liberty's equity interest in that company, the forfeiture of its right to vote or exercise other rights, the right of the other stockholders or partners to force New Liberty to sell its interest at less than fair value, the forced dissolution of the company to which New Liberty has made the commitment or, in some instances, a breach of contract action for damages against New Liberty. New Liberty's ability to meet capital calls or other capital or loan commitments is subject to its ability to access cash. See " A substantial portion of the consolidated debt attributed to each group is held at the parent company level, and New Liberty could be unable in the future to obtain cash in amounts sufficient to service that debt and its other financial obligations." below.

The liquidity and value of New Liberty's interests in its business affiliates may be affected by market conditions beyond its control that could cause New Liberty to take significant impairment charges due to other than temporary declines in the market value of its available for sale securities. Included among the assets attributable to each group are equity interests in one or more publicly-traded companies which are or will be accounted for as available for sale securities. The value of these interests may be affected by economic and market conditions that are beyond New Liberty's control. New Liberty is required by accounting principles generally accepted in the United States to determine, from time to time, whether a decline in the market value of any of those investments below the cost for that investment is other than temporary. If New Liberty determines that the decline is other than temporary, New Liberty is required to write down its cost to a new cost basis, with the amount of the write-down accounted for as a realized loss in the determination of net income for the period in which the write-down occurs. We have at times realized significant losses due to other than temporary declines in the fair value of certain of our available for sale securities, and New Liberty and either group may be required to realize further losses of this nature in future periods. A number of factors are used in determining the fair value of an investment and whether any decline in an investment is other than temporary. As the assessment of fair value and any resulting impairment losses requires a high degree of judgment and includes significant estimates and assumptions, the actual amount New Liberty may eventually realize for an investment could differ materially from our or their assessment of the value of that investment made in an earlier period. In addition, New Liberty's ability to liquidate these interests without adversely affecting their value may be limited.

A substantial portion of the consolidated debt attributed to each group is held at the parent company level, and New Liberty could be unable in the future to obtain cash in amounts sufficient to service that debt and its other financial obligations. As of December 31, 2005, we had \$9.06 billion of debt outstanding at the parent company level. While portions of this debt will be attributed to each group, the issuer of this debt (Old Liberty) will not change. New Liberty's ability to meet its financial obligations will depend upon its ability to access cash. New Liberty's sources of cash include its available cash balances, net cash from operating activities, dividends and interest from its investments, availability under credit facilities, monetization of its public investment portfolio and proceeds from asset sales. There are no assurances that New Liberty will maintain the amounts of cash, cash equivalents or marketable securities that we maintained over the past few years.

The ability of New Liberty's operating subsidiaries to pay dividends or to make other payments or advances to New Liberty depends on their individual operating results and any statutory, regulatory or contractual restrictions to which they may be or may become subject. Some of New Liberty's subsidiaries are subject to loan agreements that restrict sales of assets and prohibit or limit the payment of dividends or the making of distributions, loans or advances to stockholders and partners.

New Liberty generally will not receive cash, in the form of dividends, loans, advances or otherwise, from its business affiliates. In this regard, New Liberty will not have sufficient voting control over most of its business affiliates to cause those companies to pay dividends or make other payments or advances to their partners or stockholders, including New Liberty.

Both the Interactive Group and the Capital Group depend on a limited number of potential customers for carriage of their programming. The cable television and direct-to-home satellite industries have been undergoing a period of consolidation. As a result, the number of potential buyers of the programming services attributable to these groups is decreasing. In this more concentrated market, there can be no assurance that the owned and affiliated program suppliers attributed to either group will be able to obtain or maintain carriage of their programming services by distributors on commercially reasonable terms or at all.

Rapid technological advances could render the products and services offered by both group's subsidiaries and business affiliates obsolete or non-competitive. The subsidiaries and business affiliates attributed to each group must stay abreast of rapidly evolving technological developments and offerings to remain competitive and increase the utility of their services. These subsidiaries and business affiliates must be able to incorporate new technologies into their products in order to address the needs of their customers. There can be no assurances that they will be able to compete with advancing technology, and any failure to do so may adversely affect the group to which they are attributed.

Certain of our subsidiaries and business affiliates depend on their relationships with third party distribution channels, suppliers and advertisers and any adverse changes in these relationships could adversely affect New Liberty's results of operations and those attributed to either group. An important component of the success of our subsidiaries and business affiliates is their ability to maintain their existing, as well as build new, relationships with third party distribution channels, suppliers and advertisers, among other parties. Adverse changes in existing relationships or the inability to enter into new arrangements with these parties on favorable terms, if at all, could have a significant adverse effect on New Liberty's results of operations and those attributed to either group.

Adverse events or trends in the industries in which the subsidiaries and business affiliates attributed to either group operate could harm that group. In general, the subsidiaries and business affiliates in both groups are sensitive to trends and events that are outside their control. For example, adverse trends or events, such as general downturns, decreases in consumer spending and natural or other disasters, among other adverse events and trends, could have a significantly negative impact on both groups.

The subsidiaries and business affiliates attributable to each group are subject to risks of adverse government regulation. Programming services, cable television systems, the Internet, telephony services and satellite carriers are subject to varying degrees of regulation in the United States by the Federal Communications Commission and other entities and in foreign countries by similar entities. Such

regulation and legislation are subject to the political process and have been in constant flux over the past decade. The application of various sales and use tax provisions under state, local and foreign law to certain of the Interactive Group's subsidiaries' and business affiliates' products and services sold via the Internet, television and telephone is subject to interpretation by the applicable taxing authorities, and no assurance can be given that such authorities will not take a contrary position to that taken by those subsidiaries and business affiliates, which could have a material adverse effect on their business. In addition, there have been numerous attempts at the federal, state and local levels to impose additional taxes on online commerce transactions. Moreover, substantially every foreign country in which our subsidiaries or business affiliates have, or may in the future make, an investment regulates, in varying degrees, the distribution, content and ownership of programming services and foreign investment in programming companies and wireline and wireless cable communications, satellite and telephony services and the Internet. Further material changes in the law and regulatory requirements must be anticipated, and there can be no assurance that the business and the business of the affiliates attributed to each group will not be adversely affected by future legislation, new regulation or deregulation.

The success of certain of the groups' subsidiaries and business affiliates whose businesses involve the Internet depends on maintaining the integrity of their systems and infrastructure. A fundamental requirement for online commerce and communications is the secure transmission of confidential information, such as credit card numbers or other personal information, over public networks. If the security measures of any of our subsidiaries or business affiliates engaged in online commerce were to be compromised, it could have a detrimental effect on their reputation and adversely affect their ability to attract customers.

Computer viruses transmitted over the Internet have significantly increased in recent years, thereby increasing the possibility of disabling attacks on and damage to websites of our subsidiaries and business affiliates whose businesses are dependent on the Internet. In addition, certain of the subsidiaries and business affiliates attributed to each group rely on third-party computer systems and service providers to facilitate and process a portion of their transactions. Any interruptions, outages or delays in these services, or a deterioration in their performance, could impair the ability of these subsidiaries and business affiliates to process transactions for their customers and the quality of service they can offer to them.

Certain of the subsidiaries and business affiliates attributed to both groups have significant operations outside of the United States that are subject to numerous operational and financial risks. Certain of the subsidiaries and business affiliates attributed to both groups have significant operations in countries other than the United States and are subject to the following risks inherent in international operations:

fluctuations in currency exchange rates;

longer payment cycles for sales in foreign countries that may increase the uncertainty associated with recoverable accounts;

recessionary conditions and economic instability affecting overseas markets;

potentially adverse tax consequences;

export and import restrictions, tariffs and other trade barriers;

increases in taxes and governmental royalties and fees;

involuntary renegotiation of contracts with foreign governments;

changes in foreign and domestic laws and policies that govern operations of foreign-based companies;

difficulties in staffing and managing international operations; and

political unrest that may result in disruptions of services that are critical to their international businesses.

The success of certain of the subsidiaries and business affiliates attributed to each group is dependent upon audience acceptance of its programs and programming services which is difficult to predict. Entertainment content production and premium subscription television program services are inherently risky businesses because the revenue derived from the production and distribution of a cable program and the exhibition of theatrical feature films and other programming depend primarily upon their acceptance by the public, which is difficult to predict. The commercial success of a cable program or premium subscription television service depends upon the quality and acceptance of other competing programs and films released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, many of which are difficult to predict. Audience sizes for cable programming and premium subscription television program services are important factors when cable television and DTH satellite providers negotiate affiliation agreements and, in the case of cable programming, when advertising rates are negotiated. Consequently, low public acceptance of cable programs and premium subscription television program services will have an adverse effect on the results of operations of the Interactive Group and the Capital Group.

Increased programming and content costs may adversely affect profits. Subsidiaries and business affiliates attributable to each group produce programming and incur costs for all types of creative talent including actors, writers and producers. These subsidiaries and business affiliates also acquire programming, such as movies and television series, from television production companies and movie studios. An increase in the costs of programming may lead to decreased profitability.

Factors Relating to QVC

The risks described below are unique to QVC, which will initially constitute the primary business attributed to the Interactive Group.

QVC conducts its merchandising businesses under highly competitive conditions. Although QVC is the nation's largest home shopping network, it has numerous and varied competitors at the national and local levels, including conventional and specialty department stores, other specialty stores, mass merchants, value retailers, discounters, and Internet and mail-order retailers. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, reputation and credit availability. If QVC does not compete effectively with regard to these factors, its results of operations could be materially and adversely affected.

QVC's sales and operating results depend on its ability to predict or respond to consumer preferences. QVC's sales and operating results depend in part on its ability to predict or respond to changes in consumer preferences and fashion trends in a timely manner. QVC develops new retail concepts and continuously adjusts its product mix in an effort to satisfy customer demands. Any sustained failure to identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse affect on QVC's business. Consumer spending may be affected by many factors outside of QVC's control, including competition from store-based retailers, mail-order and Internet companies, consumer confidence and preferences, and general economic conditions.

QVC's success depends in large part on its ability to recruit and retain key employees capable of executing its unique business model. QVC has a business model that requires it to recruit and retain key employees with the skills necessary for a unique business that demands knowledge of the general retail industry, television production, direct to consumer marketing and fulfillment and the Internet. In April 2005, we announced that two senior officers of QVC, including its long-time CEO, had decided to retire at different points in time over the next eighteen months. We also recently announced the hiring of a new president for QVC who will assume the role of chief executive officer after a brief transition period. Although we are implementing transition plans at QVC, there is no assurance that the new management team will be able to execute QVC's business model in a manner that will allow QVC to sustain growth and continued success. In addition, we also can not assure you that if QVC experiences additional turnover of its key employees, they will be able to recruit and retain acceptable replacements because the market for such employees is very competitive and limited.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements which, by definition, involve risks and uncertainties. In some cases, you can identify these statements by our use of forward-looking words such as "may," "will," "should," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential," "intend" and other terms of similar substance used in this document. In particular, statements under "Summary," "Risk Factors," "The Restructuring Proposals Background and Reasons for the Restructuring Proposals," "The Interactive Group and the Capital Group," "Material U.S. Federal Income Tax Consequences," "Annex A: Description of Business" and "Annex B: Financial Information" contain forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

general economic and business conditions and industry trends;

consumer spending levels, including the availability and amount of individual consumer debt;

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;

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

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;

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

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

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

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 and joint venturers;

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

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

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this document, 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. When considering such forward-looking statements, you should keep in mind the factors described in "Risk Factors" and other cautionary statements contained or incorporated in this document. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

THE ANNUAL MEETING

Time, Place and Date

The 2006 annual meeting of our stockholders is to be held at 9:00 a.m., local time, on May 9, 2006, at the Denver Marriott South at Park Meadows, 10345 Park Meadows Drive, Littleton, Colorado 80124, telephone (303) 925-0004.

Purpose

At the annual meeting, you will be asked to consider and vote on each of the restructuring proposals, which are described in greater detail under "The Restructuring Proposals General," and each of the annual business matter proposals, which are described in greater detail under "Annual Business Matter Proposals." **Each of the restructuring proposals is dependent on the others, and none of them will be implemented unless they are all approved at the annual meeting.**

Quorum

In order to carry on the business of the annual meeting, a quorum of stockholders must be present. This means that at least a majority of the aggregate voting power represented by the outstanding shares of our common stock must be represented at the annual meeting, either in person or by proxy. For purposes of determining a quorum, your shares will be included as represented at the meeting even if you indicate on your proxy that you abstain from voting. In addition, if a broker, who is a record holder of shares, indicates on a form of proxy that the broker does not have discretionary authority to vote those shares on the restructuring proposals or the annual business matter proposals, or if those shares are voted in circumstances in which proxy authority is defective or has been withheld with respect to the restructuring proposals or the annual business matter proposals, these shares (which we refer to as "broker non-votes") will be treated as present for purposes of determining the presence of a quorum. See " Voting Procedures for Shares Held in Street Name Effect of Broker Non-Votes" below.

Who May Vote

Holders of our Series A common stock and Series B common stock, as recorded in our stock register as of 5:00 p.m., New York City time, on April 6, 2006 (which is the record date for the annual meeting), may vote at the annual meeting or at any adjournment or postponement thereof.

Votes You Have

At the annual meeting, holders of our Series A common stock will have one vote and holders of Series B common stock will have 10 votes, in each case, for each share that our records show they owned as of 5:00 p.m., New York City time, on April 6, 2006, which is the record date for the annual meeting. Holders of our Series A common stock and our Series B common stock will vote together as a single class.

Recommendation of Our Board of Directors

Our board of directors has approved all of the restructuring proposals and both of the annual business matter proposals and recommends that you vote "**FOR**" each of them.

Votes Required

Approval of each of the restructuring proposals and of the auditors ratification proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of our Series A common stock and our Series B common stock outstanding on the record date for the

annual meeting that are present, in person or by proxy, at the annual meeting, voting together as a single class.

Approval of the election of directors proposal requires a plurality of the affirmative votes of the shares of our Series A common stock and Series B common stock outstanding on the record date, voting together as a single class, that are voted in person or by proxy at the annual meeting. This means that the three nominees will be elected if they receive more affirmative votes than any other person.

Shares Outstanding

As of February 28, 2006, an aggregate of 2,682,435,330 shares of our Series A common stock and 121,062,825 shares of our Series B common stock were outstanding and would have been entitled to vote at the annual meeting if February 28, 2006 had been the record date for the annual meeting.

Number of Holders

We expect there to be, as of the record date for the annual meeting, approximately 4,320 record holders of our Series A common stock and approximately 180 record holders of our Series B common stock (which amounts do not include the number of stockholders whose shares are held of record by banks, brokers or other nominees, but include each such institution as one holder).

Voting Procedures for Record Holders

Holders of record of our common stock as of the record date for the annual meeting may vote in person thereat. Alternatively, they may give a proxy by completing, signing, dating and returning the proxy card that is being included with the mailing of this proxy statement/prospectus, or by voting by telephone or over the Internet. Unless subsequently revoked, shares of our common stock represented by a proxy submitted as described below and received at or before the annual meeting will be voted in accordance with the instructions on the proxy.

YOUR VOTE IS IMPORTANT. It is recommended that you vote by proxy even if you plan to attend the annual meeting. You may change your vote at the annual meeting. To submit a written proxy by mail, you should complete, sign, date and mail the proxy in accordance with its instructions.

If any other matters are properly presented before the annual meeting, the persons you choose as proxies will have discretion to vote or to act on these matters according to their best judgment, unless you indicate otherwise on your proxy.

If a proxy is signed and returned by a record holder without indicating any voting instructions, the shares of our common stock represented by the proxy will be voted "**FOR**" the approval of each of the restructuring proposals and each of the annual business matter proposals.

If you submit a proxy card on which you indicate that you abstain from voting, it will have no effect on the election of directors proposal and will have the same effect as a vote "**AGAINST**" the restructuring proposals and the auditors ratification proposal.

Voting Procedures for Shares Held in Street Name

General. If you hold your shares in the name of a broker, bank or other nominee, you should follow the instructions provided by your broker, bank or other nominee when voting your shares of our common stock or when granting or revoking a proxy.

Effect of Broker Non-Votes. Shares represented by "broker non-votes" will be deemed shares not entitled to vote and will not be included for purposes of determining the aggregate voting power and number of shares represented and entitled to vote on the restructuring proposals and the annual

business matter proposals. Broker non-votes will have no effect on any of the restructuring proposals or annual meeting proposals.

Revoking a Proxy

Before your proxy is voted, you may change your vote by telephone or over the Internet (if you originally voted by telephone or over the Internet), by voting in person at the annual meeting or by delivering a signed proxy revocation or a new signed proxy with a later date to Liberty Media Corporation, c/o Computershare Trust Company, N.A., P.O. Box 8078, Edison New Jersey 08818. Any signed proxy revocation or new signed proxy must be received before the start of the annual meeting.

Your attendance at the annual meeting will not, by itself, revoke your proxy.

If your shares are held in an account by a broker, bank or other nominee, you should contact your nominee to change your vote.

Solicitation of Proxies

The accompanying proxy for the annual meeting is being solicited on behalf of our board of directors. In addition to this mailing, our employees may solicit proxies personally or by telephone. We pay the cost of soliciting these proxies. We also reimburse brokers and other nominees for their expenses in sending these materials to you and getting your voting instructions.

Exchange of Shares

If the restructuring proposals are approved and the restructuring is completed, you will receive written instructions from the stock transfer agent on how to exchange your Old Liberty common stock for shares of Liberty Interactive common stock and Liberty Capital common stock. You are urged **NOT** to send your shares of Old Liberty common stock with your proxy card.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**Security Ownership of Certain Beneficial Owners**

The following table sets forth information, to the extent known by us or ascertainable from public filings, concerning shares of our common stock beneficially owned by each person or entity (excluding any of our directors and executive officers) known by us to own more than five percent of the outstanding shares of our common stock.

The percentage ownership information is based upon 2,682,435,330 shares of our Series A common stock and 121,062,825 shares of our Series B common stock outstanding as of February 28, 2006.

Name and Address of Beneficial Owner	Series of Stock	Number of Shares	Percent of Class	Voting Power
(in thousands)				
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	Series A	143,483(1)	5.3%	3.7%
Southeastern Asset Management, Inc. 6410 Poplar Ave., Suite 900 Memphis, TN 38119	Series A	149,615(2)	5.6%	3.8%

(1) The number of shares of common stock is based upon the Schedule 13G dated December 30, 2005, filed by Capital Research and Management Company with respect to our Series A common stock. Capital Research, an investment adviser, is deemed to be the beneficial owner of 143,482,900 shares of our Series A common stock, as a result of acting as investment adviser to various investment companies, but disclaims beneficial ownership pursuant to Rule 13d-4. The Schedule 13G reflects that Capital Research has sole voting power over 44,827,900 shares of our Series A common stock.

(2) The number of shares of common stock is based upon the Schedule 13G dated February 6, 2006, filed by Southeastern Asset Management, Inc., an investment adviser, and O. Mason Hawkins, Chairman of the Board and CEO of Southeastern, with respect to our Series A common stock. All of the 149,614,548 shares of our Series A common stock covered by the Schedule 13G are owned by Southeastern's investment advisory clients and none are owned directly or indirectly by Southeastern. Mr. Hawkins could be deemed to be a controlling person of Southeastern but disclaims the existence of such control. Mr. Hawkins does not own directly or indirectly any securities covered by the Schedule 13G. Southeastern and Mr. Hawkins disclaim beneficial ownership of the shares covered by the Schedule 13G pursuant to Rule 13d-4. The Schedule 13G reflects that Southeastern has sole voting power over 81,534,100 shares of our Series A common stock and shared voting power over 53,369,448 shares of our Series A common stock.

Security Ownership of Management

The following table sets forth information with respect to the ownership by each of our directors and each of our named executive officers and by all of our directors and executive officers as a group of shares of our Series A and our Series B common stock. None of our directors or named executive officers own any equity securities of FUN Technologies plc or OpenTV Corp., each of which is currently a publicly-traded subsidiary of ours.

The security ownership information is given as of February 28, 2006 and, in the case of percentage ownership information, is based on 2,682,435,330 shares of our Series A common stock and 121,062,825 shares of our Series B common stock.

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Shares of common stock issuable upon exercise or conversion of options, warrants and convertible securities that were exercisable or convertible on or within 60 days after February 28, 2006, are deemed to be outstanding and to be beneficially owned by the person holding the options, warrants or convertible securities for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. For purposes of the following presentation, beneficial ownership of shares of our Series B common stock, though convertible on a one-for-one basis into shares of our Series A common stock, is reported as beneficial ownership of our Series B common stock only, and not as beneficial ownership of our Series A common stock. So far as is known to us, the persons indicated below have sole voting power with respect to the shares indicated as owned by them, except as otherwise stated in the notes to the table.

The number of shares indicated as owned by the following persons includes interests in shares held by our defined contribution 401(k) plan (the Liberty 401(k) Savings Plan), in each case as of February 28, 2006. The shares held by the trustee of the 401(k) plan for the benefit of these persons are voted as directed by such persons.

Name of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class	Voting Power
		(in thousands)		
John C. Malone	Liberty Series A	15,813(1)(2)(3)(4)	*	30.0%
	Liberty Series B	118,680(1)(4)(5)	89.5%	
Robert R. Bennett	Liberty Series A	5,810(6)(7)(8)	*	4.3%
	Liberty Series B	16,680(7)(8)	12.1%	
Donne F. Fisher	Liberty Series A	311(9)	*	*
	Liberty Series B	597	*	
Paul A. Gould	Liberty Series A	1,513(10)	*	*
	Liberty Series B	600	*	
Gregory B. Maffei	Liberty Series A	344(11)	*	*
	Liberty Series B	0		
David E. Rapley	Liberty Series A	30(9)	*	*
	Liberty Series B	0		
M. LaVoy Robison	Liberty Series A	28(9)	*	*
	Liberty Series B	0		
Larry E. Romrell	Liberty Series A	265(12)	*	*
	Liberty Series B	3	*	
David J.A. Flowers	Liberty Series A	2,068(13)(14)(15)	*	*
	Liberty Series B	0		
Albert E. Rosenthaler	Liberty Series A	579(16)(17)	*	*
	Liberty Series B	0		
Christopher W. Shean	Liberty Series A	588(18)(19)(20)	*	*
	Liberty Series B	0		
Charles Y. Tanabe	Liberty Series A	2,496(19)(21)(22)(23)	*	*
	Liberty Series B	0		
All directors and executive officers as a group (12 persons)	Liberty Series A	29,846(3)(8)(15)(24)(25)(26)(27)	1.1%	33.4%
	Liberty Series B	136,561(5)(8)(25)(27)	91.5%	

*
Less than one percent

(1)

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Includes 1,505,043 shares of our Series A common stock and 3,409,436 shares of our Series B common stock held by Mr. Malone's wife, Mrs. Leslie Malone, as to which shares Mr. Malone has disclaimed beneficial ownership.

(2)

Includes 765,324 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

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- (3) Includes 3,300 shares of our Series A common stock held by a trust with respect to which Mr. Malone is the sole trustee and, with his wife, retains a unitrust interest in the trust.
- (4) Includes beneficial ownership of 1,375 shares of our Series A common stock and 11,485,402 shares of our Series B common stock which may be acquired upon exercise of stock options exercisable within 60 days after February 28, 2006. Mr. Malone has the right to convert the options to purchase shares of our Series B common stock into options to purchase shares of our Series A common stock.
- (5) In February 1998, in connection with the settlement of certain legal proceedings relative to the Estate of Bob Magness, the late founder and former Chairman of the Board of our former parent company, TCI, TCI entered into a call agreement with Mr. Malone and Mr. Malone's wife and a call agreement with the Magness Group. In connection with AT&T's acquisition of TCI, TCI assigned to us its rights under these call agreements. As a result, we have the right, under certain circumstances, to acquire shares of our Series B common stock owned by the Malones. The call agreement also prohibits the Malones from disposing of their shares of our Series B common stock, except for certain exempt transfers (such as transfers to related parties or to the other group or public sales of up to an aggregate of 5% of their shares of our Series B common stock after conversion to shares of our Series A common stock) and except for a transfer made in compliance with our call rights.
- (6) Includes 32,655 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (7) Includes beneficial ownership of 2,025,640 shares of our Series A common stock and 16,679,853 shares of our Series B common stock which may be acquired upon exercise of, or which relate to, stock options and stock appreciation rights exercisable within 60 days after February 28, 2006. Mr. Bennett has the right to convert the options to purchase shares of our Series B common stock into options to purchase shares of our Series A common stock.
- (8) Includes 1,246,596 shares of our Series A common stock and 400 shares of our Series B common stock owned by Hilltop Investments, Inc. which is jointly owned by Mr. Bennett and his wife, Mrs. Deborah Bennett.
- (9) Includes beneficial ownership of 22,000 shares of our Series A common stock which may be acquired upon exercise of, or which relate to, stock appreciation rights exercisable within 60 days after February 28, 2006.
- (10) Includes beneficial ownership of 30,750 shares of our Series A common stock which may be acquired upon exercise of, or which relate to, stock options and stock appreciation rights exercisable within 60 days after February 28, 2006.
- (11) Includes beneficial ownership of 343,750 shares of our Series A common stock which may be acquired upon exercise of stock options exercisable within 60 days after February 28, 2006.
- (12) Includes beneficial ownership of 40,263 shares of our Series A common stock which may be acquired upon exercise of, or which relate to, stock options and stock appreciation rights exercisable within 60 days after February 28, 2006.
- (13) Includes 14,470 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (14) Includes beneficial ownership of 1,644,364 shares of our Series A common stock which may be acquired upon exercise of, or which relate to, stock options and stock appreciation rights exercisable within 60 days after February 28, 2006.
- (15) Includes 27,000 shares of our Series A common stock owned by AIKD Investment, Inc. which is solely owned by Mr. Flowers.
- (16) Includes 7,309 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (17) Includes beneficial ownership of 572,100 shares of our Series A common stock which may be acquired upon exercise of, or which relate to, stock options and stock appreciation rights exercisable within 60 days after February 28, 2006.
- (18) Includes 15,847 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (19) Includes 45,000 restricted shares of our Series A common stock, none of which was vested as of February 28, 2006.

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- (20) Includes beneficial ownership of 520,948 shares of our Series A common stock which may be acquired upon exercise of, or which relate to, stock options and stock appreciation rights exercisable within 60 days after February 28, 2006.
- (21) Includes 8,771 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.
- (22) Includes 3,068 shares of our Series A common stock held by Mr. Tanabe's wife, Arlene Bobrow, as to which shares Mr. Tanabe has disclaimed beneficial ownership.
- (23) Includes beneficial ownership of 2,149,152 shares of our Series A common stock which may be acquired upon exercise of, or which relate to, stock options and stock appreciation rights exercisable within 60 days after February 28, 2006.
- (24) Includes 844,376 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

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- (25) Includes 1,508,111 shares of our Series A common stock and 3,409,436 shares of our Series B common stock held by relatives of certain directors and executive officers, as to which shares beneficial ownership by such directors and executive officers has been disclaimed.
- (26) Includes 90,000 restricted shares of our Series A common stock, none of which was vested as of February 28, 2006.
- (27) Includes beneficial ownership of 7,394,342 shares of our Series A common stock and 28,165,255 shares of our Series B common stock which may be acquired upon exercise of, or which relate to, stock options and stock appreciation rights exercisable within 60 days after February 28, 2006. The options to purchase shares of our Series B common stock may be converted into options to purchase shares of our Series A common stock.

TruePosition, Inc. As of February 28, 2006, Mr. Gould beneficially owned 78,910 shares of common stock of TruePosition Inc. representing less than a 1% ownership interest in TruePosition. These shares include 74,421 shares of common stock owned by Allen & Company LLC, of which Mr. Gould is a Managing Director and Executive Vice President.

Change of Control

We know of no arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of our company.

THE RESTRUCTURING PROPOSALS

The description of the material terms of the restructuring proposals set forth below is not complete. In addition, we qualify the applicable portions of this description by reference to the form of New Liberty's amended charter and the merger agreement included as Annexes C and D, respectively. We urge all stockholders to read New Liberty's amended charter and the merger agreement in their entirety.

General

At the annual meeting you will be asked to vote on a group of five related proposals: the merger proposal, the tracking stock proposal, the optional conversion proposal, the optional redemption proposal and the group disposition proposal. We refer to all five proposals together as the "restructuring proposals." If all five proposals are approved at the annual meeting, New Liberty will become our publicly-traded parent company and New Liberty's certificate of incorporation will be amended and restated to provide for two new tracking stocks, the terms of which are described in detail under " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock." Each of the proposals is described below. While each proposal is related and therefore conditioned on approval of the other four proposals, we have "unbundled" them so that you may communicate your view to the board of directors as to each proposal being voted on.

The merger proposal. Under this proposal, you are being asked to adopt a merger agreement pursuant to which Liberty Media Corporation would become a wholly-owned subsidiary of New Liberty, which would become our publicly-traded parent company, on the terms set forth in this proxy statement/prospectus. The merger agreement is described below under " The Merger Agreement and the Related Restructuring."

The tracking stock proposal. Under this proposal, you are being asked to approve an amendment and restatement to New Liberty's certificate of incorporation which would create two new tracking stocks, the Liberty Interactive common stock and the Liberty Capital common stock. In the merger, those tracking stocks would be exchanged for the shares of Old Liberty Series A common stock and Old Liberty Series B common stock which are currently outstanding. The tracking stocks are intended to track and reflect the separate economic performance of a new Interactive Group and a new Capital Group, respectively. Each tracking stock will be divided into three series with different voting rights. See " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock General."

The Interactive Group will initially consist of our interests in QVC, Inc., Provide Commerce, Inc., Expedia, Inc. and IAC/InterActiveCorp. In addition, we will attribute \$4.48 billion principal amount (as of December 31, 2005) of our existing parent company debt to the Interactive Group. The Capital Group will consist of all of our business that is not part of the Interactive Group. In addition, we will attribute the portion of our existing parent company debt that is not attributed to the Interactive Group (which is \$4.58 billion principal amount (as of December 31, 2005)) to the Capital Group.

An investment in Liberty Interactive common stock will not represent an ownership interest in the Interactive Group, and an investment in Liberty Capital common stock will not represent an ownership interest in the Capital Group. Rather, an investment in either of these tracking stocks will represent an ownership interest in New Liberty.

The optional conversion proposal. Under this proposal, you are being asked to approve, as part of the amendment and restatement to New Liberty's certificate of incorporation and in connection with the creation of the new tracking stocks, the creation of a right in favor of New Liberty's board of directors to convert, in their sole discretion, shares of Liberty Interactive common stock into shares of Liberty Capital common stock (except during the first year after the issuance of the Liberty Interactive common stock, subject to an earlier "tax event"). See " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Conversion and Exchange."

The optional redemption proposal. Under this proposal, you are being asked to approve, as part of the amendment and restatement to New Liberty's certificate of incorporation and in connection with the creation of the new tracking stocks, the creation of a right in favor of New Liberty's board of directors to redeem (in whole or in part), in their sole discretion, shares of Liberty Interactive common stock or Liberty Capital common stock for stock of a company whose assets consist entirely of assets which were previously attributed to the group to which the redeemed shares relate. See " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Optional Redemption for Stock of a Subsidiary."

The group disposition proposal. Under this proposal, you are being asked to approve, as part of the amendment and restatement to New Liberty's certificate of incorporation and in connection with the creation of the new tracking stocks, the creation of a right in favor of New Liberty's board of directors to sell all or substantially all of the assets of a group without a vote of the holders of the stock of that group, if the net proceeds of the sale are distributed to holders of that stock by means of a dividend or redemption, that stock is converted into stock of the other group or a combination of the foregoing is effected. See " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group."

The Merger Agreement and the Related Restructuring

The following is a summary of the material terms of the merger agreement. This summary may not contain all of the information that is important to you. It is qualified in its entirety by reference to the merger agreement, a copy of which is included as Annex D and is incorporated herein by reference. You should read the merger agreement because it, and not this document, is the legal document that governs the terms of the merger and will give you a more complete understanding of the restructuring, including the merger.

Structure of the Merger

To effect the merger and the related restructuring, Old Liberty has formed two new, wholly-owned subsidiaries. One subsidiary is Liberty Media Holding Corporation or New Liberty, and the other is a wholly-owned transitory merger subsidiary of New Liberty. In the restructuring, the transitory merger subsidiary will merge with and into Old Liberty with Old Liberty as the surviving corporation.

As a result of the merger described above and the conversion and exchange of securities described below, Old Liberty will become a wholly-owned subsidiary of New Liberty, New Liberty will become our new publicly-traded parent company, and all persons who were stockholders of Old Liberty immediately prior to the merger will be stockholders of New Liberty (and not stockholders of only part of New Liberty) immediately after the merger. In the merger New Liberty will change its name to "Liberty Media Corporation," and immediately thereafter Old Liberty will convert to a limited liability company and change its name to "Liberty Media LLC." The management and board of directors of New Liberty following the merger will be identical to the management and board of directors of Old Liberty immediately prior to the merger.

Effective Time of the Merger

If the restructuring proposals are approved, we intend to effect the restructuring by filing a certificate of merger with the Delaware Secretary of State as soon as practicable after the annual meeting. The merger will become effective at the time and on the date on which the certificate of merger is filed, or later if a later date and time is specified in the certificate of merger. Our board of directors, however, may abandon the restructuring in whole, but not in part, at any time (before or after the annual meeting) before the filing of the certificate of merger and without further action by our stockholders.

Conditions to the Merger

The completion of the merger is subject to the fulfillment of the following conditions:

the restructuring proposals must be approved at the annual meeting by a majority of the aggregate voting power of the shares of our Series A common stock and our Series B common stock outstanding on the record date that are present at the annual meeting, in person or by proxy, voting together as a class;

the registration statement of which this proxy statement/prospectus forms a part must have been declared effective and be effective at the time of the merger, with no stop order suspending effectiveness having been issued, and no action, suit, proceeding or investigation seeking a stop order or to suspend the effectiveness of the registration statement pending before or threatened by the SEC;

New Liberty must have received all state securities laws or blue sky permits and authorizations necessary, if any, with respect to the issuance of New Liberty common stock in the merger;

the shares of New Liberty common stock to be issued in the merger must be approved for listing on The Nasdaq National Market, subject only to official notice of issuance; and

Old Liberty and New Liberty must have received the opinion of Baker Botts L.L.P. described under "The Restructuring Proposals Material U.S. Federal Income Tax Consequences Tax Implications of the Restructuring" below.

The conditions described in the first, fourth and fifth bullet points above are non-waivable.

Conversion of Outstanding Shares of Old Liberty Common Stock

In the merger:

each holder of Old Liberty Series A common stock will receive (i) 0.25 of a share of Liberty Interactive Series A common stock and (ii) 0.05 of a share of Liberty Capital Series A common stock for each share of our outstanding Series A common stock held; and

each holder of Old Liberty Series B common stock will receive (i) 0.25 of a share of Liberty Interactive Series B common stock and (ii) 0.05 of a share of Liberty Capital Series B common stock for each share of our outstanding Series B common stock held.

Therefore, to receive one share of Liberty Interactive common stock in the restructuring, a stockholder must own 4 shares of the same series of Old Liberty common stock immediately prior to the merger, and to receive one share of Liberty Capital common stock in the restructuring, a stockholder must own 20 shares of the same series of Old Liberty common stock immediately prior to the merger.

If you otherwise would receive a fraction of a share of Liberty Interactive common stock or Liberty Capital common stock, you will receive cash in an amount equal to the value of any fractional share interest. The cash amount deliverable in lieu of a fractional share interest will equal the product of the applicable fraction multiplied by the closing price of a share of Liberty Interactive Series A common stock, Liberty Capital Series A common stock, Liberty Interactive Series B common stock or Liberty Capital Series B common stock, as applicable, as reported on the first trading day on which shares of Liberty Interactive common stock and Liberty Capital common stock trade in the regular way market.

Treatment of Stock Options and Other Awards

Options to purchase shares of Old Liberty common stock, stock appreciation rights with respect to shares of Old Liberty common stock and shares of Old Liberty restricted stock have been granted to various directors, officers, employees and consultants of our company and certain of our subsidiaries pursuant to the Liberty Media Corporation 2000 Incentive Plan (As Amended and Restated Effective

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April 19, 2004) and various other stock incentive plans administered by the incentive plan committee of our board of directors. The merger agreement provides for the treatment of options, SARs and restricted stock as set forth below.

Option Awards. Under the merger agreement, at the effective time of the merger each outstanding option to purchase shares of Old Liberty common stock (which we refer to as an outstanding Old Liberty option) will be divided into two options as follows:

an option (which we refer to as an Interactive Group option) to purchase a whole number of shares of the same series of Liberty Interactive common stock as the series of Old Liberty common stock for which the outstanding Old Liberty option is exercisable equal to the product obtained by multiplying the number of shares of Old Liberty common stock for which the outstanding Old Liberty option is exercisable by 0.25; and

an option (which we refer to as a Capital Group option) to purchase a whole number of shares of the same series of Liberty Capital common stock as the series of Old Liberty common stock for which the outstanding Old Liberty option is exercisable equal to the product obtained by multiplying the number of shares of Old Liberty common stock for which the outstanding Old Liberty option is exercisable by 0.05.

The aggregate exercise price of each outstanding Old Liberty option will be allocated between the Interactive Group option and the Capital Group option, *pro rata*, based upon the ratio of the volume weighted average price of the tracking stock for which the option is exercisable over the first 20 trading days of regular way trading after the completion of the restructuring to the volume weighted average prices of the tracking stocks of both groups over the same 20 trading day period. This ratio is intended to result in an allocation which will reflect the relative fair market values of each group's stock immediately following the restructuring.

By way of example, an Old Liberty option to acquire 1,000 shares of Old Liberty Series A common stock at an exercise price of \$10 would be divided, as a result of the restructuring, into:

an Interactive Group option to acquire 250 shares of Liberty Interactive Series A common stock at an exercise price of \$28.57; and

a Capital Group option to acquire 50 shares of Liberty Capital Series A common stock at an exercise price of \$57.14.

The foregoing exercise price allocation assumes that the volume weighted average price of the Liberty Interactive common stock over the first 20 trading days of regular way trading was \$25, and the volume weighted average price of the Liberty Capital common stock over such 20-trading day period was \$50.

Except as described above, all other terms of the Interactive Group option and the Capital Group option (including, for example, the vesting terms thereof) will, in all material respects, be the same as those of the corresponding outstanding Old Liberty option.

SAR Awards. Under the merger agreement, at the effective time of the merger each outstanding stock appreciation right related to Old Liberty common stock (which we refer to as an outstanding Old Liberty SAR) will be divided into two stock appreciation rights related to New Liberty common stock as follows:

a stock appreciation right (which we refer to as an Interactive Group SAR) related to a whole number of shares of the same series of Liberty Interactive common stock as the series of Old Liberty common stock to which the outstanding Old Liberty SAR relates equal to the product obtained by multiplying the number of shares of Old Liberty common stock to which the outstanding Old Liberty SAR relates by 0.25; and

a stock appreciation right (which we refer to as a Capital Group SAR) related to a whole number of shares of the same series of Liberty Capital common stock as the series of Old

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Liberty common stock to which the outstanding Old Liberty SAR relates equal to the product obtained by multiplying the number of shares of Old Liberty common stock to which the outstanding Old Liberty SAR relates by 0.05.

The base price of each outstanding Old Liberty SAR will be allocated between the Interactive Group SAR and the Capital Group SAR, pro rata, based upon the ratio of the volume weighted average price of the tracking stock to which the SAR relates over the first 20 trading days of regular way trading after the consummation of the restructuring to the volume weighted average prices of the tracking stocks of both groups over the same 20 trading day period. This ratio is intended to result in an allocation which will reflect the relative fair market values of each group's stock immediately following the restructuring.

By way of example, an outstanding Old Liberty SAR relating to 1,000 shares of Old Liberty Series A common stock with a base price of \$10 would be divided, as a result of the restructuring, into:

an Interactive Group SAR relating to 250 shares of Liberty Interactive Series A common stock with a base price of \$28.57;
and

a Capital Group SAR relating to 50 shares of Liberty Capital Series A common stock with a base price of \$57.14.

The foregoing base price allocation assumes that the volume weighted average price of the Liberty Interactive common stock over the first 20 trading days of regular way trading was \$25, and the volume weighted average price of the Liberty Capital common stock over such 20-trading day period was \$50.

Except as described above, all other terms of the Interactive Group SAR and the Capital Group SAR (including, for example, the vesting terms thereof) will, in all material respects, be the same as those of the corresponding outstanding Old Liberty SAR.

Restricted Stock Awards. Under the merger agreement, at the effective time of the merger each holder of an outstanding Old Liberty restricted stock award will be entitled to receive, for each share of restricted Old Liberty common stock held, (i) an award of 0.25 of a share of the same series of Liberty Interactive common stock as the shares of Old Liberty common stock to which such Old Liberty restricted stock award relates and (ii) an award of 0.05 of a share of the same series of Liberty Capital common stock as the shares of Old Liberty common stock to which such Old Liberty restricted stock award relates (with cash in lieu of any fractional share interests). Except as described above, all of the Interactive Group restricted stock awards and the Capital Group restricted stock awards (including, for example, the vesting terms thereof) will, in all material respects, be the same as those of the corresponding Old Liberty restricted stock award.

The Interactive Group and the Capital Group

New Liberty's amended charter, which would be filed at the effective time of the merger referred to above, will authorize and designate two tracking stocks: the Liberty Interactive common stock, intended to reflect the separate economic performance of the Interactive Group, and Liberty Capital common stock, intended to reflect the separate economic performance of the Capital Group. A description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock is provided below under the heading " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock."

One of our principal reasons for creating the Interactive Group and the Capital Group is to assist the capital markets in better understanding and valuing our businesses. Although we have always sought to conduct our businesses in a manner which increases stockholder value, over the years our capital structure has become increasingly complex. We believe this complexity has caused confusion among investors, which we believe is a major reason why our stock has traded for some time at a

discount to our estimate of our net asset value. Through the creation of the Interactive Group and the Capital Group, we are seeking to reduce that confusion.

The Interactive Group will focus on video and on-line commerce businesses and will be largely free of the financial complexity (such as derivative security positions) associated with many of our cost investments in companies which are no longer central to our business strategies and as to which we do not expect to increase our interest. (Those assets, which we refer to as non-strategic assets, will be attributed to the Capital Group.) The Interactive Group will be anchored by our consolidated subsidiary QVC, in which we have a 98% interest. By highlighting QVC, we anticipate that the market will value the Interactive Group based largely on QVC's performance, at least initially, and in line with other specialty and on-line retailers. Our strategy with the Interactive Group will be to continue QVC's organic growth in its existing markets while exploring opportunities for expansion in additional international markets. We will also seek to leverage the strength of QVC as a video and web-based retailer by acquiring complementary businesses. For example, we recently acquired Provide Commerce, Inc., which is an on-line retailer of perishable products such as cut flowers and meats. This on-line commerce retailer will be attributed to the Interactive Group.

The Interactive Group will also initially include our approximate 20% interest in Expedia, Inc. and our approximate 22% interest in IAC/InteractiveCorp. Expedia and IAC complement the business of QVC in that they offer products and services to customers through branded websites and, in the case of IAC, video and telephone sales, as well as through membership programs.

We will attribute to the Interactive Group the following debt obligations:

Obligation	Outstanding Principal at December 31, 2005
3.5% Senior Notes due 2006	\$ 121,501,000
Floating Rate Senior Notes due 2006	\$ 1,247,164,000
7.875% Senior Notes due 2009	\$ 669,695,000
7.75% Senior Notes due 2009	\$ 233,626,344
5.7% Senior Notes due 2013	\$ 802,500,000
8.5% Senior Debentures due 2029	\$ 500,000,000
8.25% Senior Debentures due 2030	\$ 901,620,000

We attributed the foregoing debt obligations to the Interactive Group after consultation with our financial and legal advisors. The debt was attributed to Interactive Group based upon a number of factors, including the cash flow available to the Interactive Group and its ability to pay debt service and our assessment of the optimal capitalization for the Interactive Group. The specific debt obligations we have attributed to the Interactive Group constitute all of our senior notes and non-exchangeable debentures. As indicated below, all of our exchangeable debentures will be attributed to the Capital Group because the stock into which such debt is exchangeable has been attributed to the Capital Group.

A more complete description of the Interactive Group is provided under "Description of Business The Interactive Group," in Annex A to this proxy statement/prospectus.

The Capital Group will consist of all of our businesses not included in the Interactive Group. Initially, the more significant businesses, business affiliates and holdings attributed to the Capital Group will be the following:

Entity	Ownership Interest as of December 31, 2005
Starz Entertainment Group LLC	100%
On Command Corporation	100%
OpenTV Corp. (NASDAQ: OPTV)	31%(1)
Courtroom Television Network LLC	50%
GSN, LLC	50%
TruePosition, Inc.	89% (common equity) 100% (preferred stock)
WildBlue Communications, Inc.	32%
News Corporation (NYSE: NWS)	16%
Time Warner Inc. (NYSE: TWX)	4%
Sprint Nextel Corporation (NYSE: S)	3%
Motorola, Inc. (NYSE: MOT)	3%

(1) We have a 78% voting interest in OpenTV.

We have owned many of the businesses and assets being attributed to the Capital Group for many years, and in a number of cases they were acquired at a time when we were the programming arm of the cable operator Tele-Communications, Inc. The businesses attributed to the Capital Group are primarily engaged in the video programming, media and interactive technology services businesses.

Following TCI's acquisition by AT&T in 1999, several of our assets were no longer viewed as central to our business strategy. These assets, including our minority interests in Motorola, Inc., Sprint Nextel and Time Warner, Inc., were effectively monetized with derivatives and/or exchangeable debentures to raise liquidity for us and to pursue acquisitions. While these financial instruments have proven beneficial to us over the years, they have complicated our capital structure and created a good deal of investor confusion. All of our non-strategic assets and related derivatives, will be attributed to the Capital Group. Over time, we expect to convert many of our non-strategic assets into operating assets or into cash that we would use to pursue opportunities that are complementary to the assets of the Capital Group and that further its business strategy.

The Capital Group will focus primarily on video programming and communications technology and services involving cable, satellite, the Internet and other distribution media as they evolve. We expect to grow the businesses attributed to the Capital Group by creating new opportunities for our existing businesses and by acquiring companies that leverage and complement those businesses. We also may explore other financial transactions and investments with attractive risk and return characteristics.

As an example of our investment strategy for this group, we recently acquired a majority interest in FUN Technologies, Inc., the new parent company of FUN Technologies plc, which would be attributed to the Capital Group. FUN's business includes the development and hosting of online games

and online fantasy sports platforms, which complements the content on GSN, Inc.'s game show network and website.

The following debt obligations will be attributed to the Capital Group:

Obligation	Outstanding Principal at December 31, 2005
0.75% Senior Exchangeable Debentures due 2023	\$ 1,750,000,000
4% Senior Exchangeable Debentures due 2029	\$ 868,782,000
3.75% Senior Exchangeable Debentures due 2030	\$ 809,999,000
3.5% Senior Exchangeable Debentures due 2031	\$ 600,000,000
3.25% Senior Exchangeable Debentures due 2031	\$ 551,333,000

The foregoing debt obligations constitute all of our exchangeable debentures. We believe that the attribution of these debentures to the Capital Group is appropriate based on the ability of the Capital Group to pay the debt service on those obligations and because the shares of other publicly-traded companies for which those debentures are exchangeable have been attributed to the Capital Group.

A more complete description of the Capital Group is provided under "Description of Business - The Capital Group" in Annex A to this proxy statement/prospectus.

Each group will include in the future other businesses, assets and liabilities that are complementary or related to the businesses attributed to that group as New Liberty's board of directors may determine. There are no present plans or proposals to attribute to either group any businesses, assets or liabilities which are indicated herein as initially being attributed to the other group. In addition, we may acquire and attribute to either group other businesses, assets and liabilities which are consistent with the focus or strategy of that group. In cases where a business may fit into either group, New Liberty's board will have discretion to determine to which group that business should be attributed. We expect that in making such a decision, the board will consider not only whether the business is principally related to those in a particular group but also which group has the financing capability and managerial expertise to best capitalize on the opportunities presented by the acquisition. New Liberty's board may change the strategy of either group, in its sole discretion, at any time. We expect that the board will do so if it is determined that such a change would be in the best interests of New Liberty and all of New Liberty's stockholders.

Recommendation of our Board of Directors

Our board of directors has carefully considered and approved all of the restructuring proposals and recommends that you vote "FOR" each of the restructuring proposals.

Background and Reasons for the Restructuring Proposals

We continually review each of our businesses and our company as a whole as we seek to execute our business strategies and increase stockholder value. As a result of this review process, we concluded that the implementation of a "tracking stock" structure would provide us with greater operational and financial flexibility in executing our business strategies and would permit the markets to make a more informed valuation of our various businesses. In reaching this conclusion, the board determined that the creation of the Interactive Group and Capital Group would permit us to bring greater clarity to our assets and our business strategies for those assets, as well as allow us to create two acquisition currencies which we believe will be preferable to sellers of companies because they will have a greater opportunity to participate in any gains enjoyed by the acquired company after the acquisition. We also anticipate that the stock of each group will trade more in line with the fundamentals of the businesses attributed to that group.

Our board of directors also considered a spin off of certain of the businesses to be attributed to the Interactive Group, but determined that a tracking stock structure, unlike a spin off, is expected to preserve certain favorable financial, tax and other benefits that we will continue to realize as a single consolidated entity.

Upon management's recommendation and after extensive consultation with our financial and legal advisors, our board of directors determined that the restructuring would be in the best interests of our company and our stockholders.

Determination of Terms of the Tracking Stocks

In determining the terms of the tracking stocks, our management and counsel reviewed precedent tracking stock charters of other issuers, including the tracking stock charters of predecessors of Old Liberty, in preparing the terms of New Liberty's amended charter. Our board of directors approved the terms of New Liberty's amended charter based on its determination that such terms best achieve the purpose of the proposed tracking stock charter: that the Liberty Interactive common stock and the Liberty Capital common stock track the performance of the businesses and assets attributed to each group, and that the New Liberty board retain operational and financial flexibility in executing New Liberty's business strategies. The board also determined that it is in the best interests of our stockholders that the tracking stocks include terms that require specific actions be taken by the board in the event of certain extraordinary transactions involving the assets of either group.

New Liberty's amended charter includes terms which, among others, provide for discretionary authority in favor of New Liberty's board to convert all of the outstanding shares of Liberty Interactive common stock into Liberty Capital common stock, redeem outstanding shares of Liberty Interactive common stock or Liberty Capital common stock for shares of a subsidiary whose assets consist solely of assets previously attributed to the Interactive Group or the Capital Group, respectively, or sell all or substantially all of the assets of a group and distribute the net proceeds of the sale to holders of stock of that group by means of a dividend or redemption, convert that stock into stock of the other group, or effect a combination of the foregoing. Each of those discretionary actions is covered by one of the related restructuring proposals that stockholders are being asked to consider and vote upon at the annual meeting.

In the case of the right of the New Liberty board of directors to convert all of the outstanding shares of Liberty Interactive common stock into Liberty Capital common stock, which is the topic of the optional conversion proposal, our board determined that New Liberty's board needed the conversion right to maintain sufficient flexibility to unwind the tracking stock structure if it determines that such an action is in the best interest of all stockholders in the future. New Liberty's board is prohibited from taking this action during the first year after the restructuring, unless certain adverse tax consequences occur. In the case of the right to redeem outstanding shares of Liberty Interactive common stock or Liberty Capital common stock for shares of a subsidiary whose assets consist solely of assets previously attributed to the Interactive Group or the Capital Group, respectively, which is the topic of the optional redemption proposal, our board determined that since investors will likely invest in the stock of a particular group due to the assets attributed to that group, those stockholders should have the ability to receive any assets attributed to that group if the New Liberty board of directors determines to split off or spin off those assets. New Liberty's amended charter limits any such redemption to that portion of the outstanding shares of a group which is equal to the portion of the assets of the group represented by the assets being split off or spun off. New Liberty's amended charter provides the New Liberty board with broad discretion in the event of a sale of all or substantially all of the assets of a group, which is the topic of the group disposition proposal, in order for the New Liberty board of directors to have maximum flexibility in determining what is in the best interests of all of its stockholders while also recognizing the interests of holders of the stock of the group whose assets have been sold. The board of directors determined that in those instances where the net proceeds of such a

sale are not reinvested in a business that is similar or complementary to the businesses of the group whose assets are sold and the sale is not otherwise considered an "exempt disposition", then holders of stock of that group should have the ability to either receive the net proceeds of that sale through a dividend or redemption of their shares, become a stockholder of the other group at a premium to the market value of the shares of the other group, or receive a combination of the foregoing. In addition, any determination of the New Liberty board of directors will be subject to the requirements of Delaware law, including the requirement that prior stockholder approval (with both groups voting as a single class) be obtained for the sale of all or substantially all of the assets of a group which also constitutes all or substantially all of the total assets of New Liberty.

Positive Aspects of the Restructuring Proposals

In arriving at its determination and recommendation, our board of directors, with the assistance of its financial and legal advisors, considered, among other things, the following:

Increased stockholder choice. The adoption of a tracking stock capitalization will allow our stockholders and future investors to own either or both of the Liberty Interactive common stock and the Liberty Capital common stock, depending on their particular investment objectives.

Greater financial flexibility. The creation of the Liberty Interactive common stock and the Liberty Capital common stock will provide greater flexibility to raise capital and respond to strategic opportunities (including acquisitions) because it will allow us to issue either Liberty Interactive common stock or Liberty Capital common stock as appropriate under the circumstances. For example, it would allow stockholders of an entity that is acquired for the Interactive Group the opportunity to participate more directly in the success of the business in which that entity engages rather than participating in our much larger and more diversified businesses as is the case with our current capitalization.

Advantages of doing business under common ownership. In contrast to a spin off, the restructuring proposals will allow us to retain the advantages of doing business as a single company and allow the businesses attributed to each group to capitalize on relationships with the businesses attributed to the other group. As part of a single company, the businesses within each group will continue to take advantage of the strategic, financial and other benefits of shared managerial expertise, synergies relating to technology and purchasing arrangements, consolidated tax benefits, lower borrowing costs in some instances and cost savings in corporate overhead and other expenses.

Management incentives. The creation of the Liberty Interactive common stock and the Liberty Capital common stock will permit the creation of more effective management incentive and retention programs. In particular, it will allow us to issue stock-based compensation and other incentive awards to employees of the businesses within each group that are tied more directly to the performance of their group and indirectly to the performance of the company.

Preserves capital structure flexibility. The terms of New Liberty's amended charter preserve the ability of New Liberty's board of directors to unwind the tracking stock capitalization, subject to certain restrictions on timing. The restructuring proposals also retain future restructuring flexibility by preserving our ability to undertake future asset segmentation and capital restructurings, such as spin offs and split offs.

Implementation of the restructuring will not be taxable. We expect that the implementation of the restructuring will not be taxable for U.S. federal income tax purposes to us or to our stockholders (except with respect to cash received in lieu of fractional shares).

Anticipated greater market recognition and more accurate valuation. The creation of the Liberty Interactive common stock and the Liberty Capital common stock is intended to permit the market to review separate information about the businesses, assets and liabilities attributed to

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the Interactive Group and the Capital Group, and hence separately value the Liberty Interactive common stock and the Liberty Capital common stock. This should encourage investors and analysts to focus on the businesses, assets and liabilities attributed to each of the Interactive Group and the Capital Group which, to date, have been relatively hidden within our current corporate structure. In addition, having separate common stocks relating to the Interactive Group and the Capital Group should allow equity investors to apply different and more specific criteria in selecting in which of our securities to invest.

Potential Negative Aspects of the Restructuring Proposals

Our board of directors also evaluated the potential negative aspects of the restructuring proposals, including the following:

Uncertainty of market valuation. There can be no assurance as to the degree to which the market price of the Liberty Interactive common stock and the Liberty Capital common stock will reflect the separate performances of those groups. In addition, we cannot predict the impact of the restructuring proposals on the market price of our existing common stock prior to the annual meeting or whether the issuance of the Liberty Interactive common stock and the Liberty Capital common stock will increase our aggregate market capitalization.

Expansion of the board of directors' responsibilities. New Liberty's amended charter may expand New Liberty's board of directors' responsibilities due to the need for the New Liberty board to review any matter involving the allocation of a business or corporate opportunity to the Interactive Group or the Capital Group, a potential conflict of interest between the holders of the Liberty Interactive common stock and the Liberty Capital common stock, or the movement of assets and creation of inter-group interests between the groups.

Creation of potential diverging or conflicting interests. New Liberty's amended charter may create potential diverging or conflicting interests between the holders of Liberty Interactive common stock and the holders of Liberty Capital common stock, and complex issues may arise in resolving such conflicts that effectively require New Liberty's board of directors to benefit one group more than the other group.

Uncertainty of market reaction to tracking stock decisions. The market values of Liberty Interactive common stock and Liberty Capital common stock could be affected by the market reaction to decisions by New Liberty's board of directors and management that investors perceive as affecting differently one series of common stock compared to the other. These decisions could include decisions regarding business transactions between the groups or the allocation of assets, expenses, debt or other financial liabilities between the groups.

Complex capital structure. The recapitalization which would be effected if the restructuring proposals are approved will result in a complex capital structure due to the intricate terms of New Liberty's amended charter. For instance, New Liberty's amended charter provides that:

New Liberty may redeem, in one or more transactions, stock relating to a particular group in exchange for stock of one or more subsidiaries holding assets attributed to that group, provided that New Liberty's board of directors has determined that such redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) for U.S. federal income tax purposes to holders of the stock of that group; and

following the sale of all or substantially all of the assets attributed to a group, New Liberty must take certain specified actions, including declaring a dividend on or redeeming the stock relating to that group or converting the stock relating to that group into stock relating to the other group, in each case, unless the sale qualifies for one of the exemptions listed in New Liberty's amended charter.

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Our existing charter does not include any optional or mandatory redemption provisions nor does it include any mandatory dividend or conversion provisions. For a discussion of additional differences between these charters, please see " Comparison of Old Liberty Common Stock with Liberty Interactive Common Stock and Liberty Capital Common Stock" below. The provisions of New Liberty's amended charter, as well as the manner in which New Liberty will present in its reports the assets, liabilities and cash flows of New Liberty and each of the groups, could cause confusion among some investors.

Potential adverse tax consequences. The tax treatment of the restructuring is subject to some uncertainty, and the board considered the possibility that the IRS could successfully assert that the receipt of the Liberty Interactive common stock or the Liberty Capital common stock or both in the restructuring is taxable to you and/or to us. The board considered the fact that if the IRS were successful in such a claim, material adverse tax consequences could result to you and us.

Dual Public Filings. The implementation of the restructuring proposal would result in both New Liberty and Old Liberty being reporting companies under the Exchange Act. Old Liberty would be required to continue to make periodic filings under the Exchange Act due to its having outstanding a significant amount of notes and debentures. Preparing filings for two reporting companies will result in additional administrative, legal and accounting costs and diversion of management time.

Our board of directors determined that the positive aspects of the restructuring proposals outweighed the negative aspects and concluded that the restructuring proposals are in the best interests of Liberty Media Corporation and its stockholders. In light of the number and variety of factors that our board of directors considered, our board of directors believes it is not practicable to assign relative weights to the factors discussed above, and accordingly, our board of directors did not do so.

Management and Allocation Policies

One of the fundamental objectives of the restructuring proposals is to attribute all of our businesses and operations to either of the Interactive Group or the Capital Group and present separate consolidating financial information for each group. In order to accomplish this objective in a fair and equitable manner in the future, we have established management and allocation policies to help us allocate certain items (such as debt, corporate overhead, taxes, corporate opportunities and other charges and obligations) between the Interactive Group and the Capital Group in a reasonable manner after taking into account all material factors.

As a general principle, we expect that all material matters in which holders of Liberty Interactive common stock and Liberty Capital common stock may have divergent interests will be generally resolved in a manner that is in New Liberty's best interests and the best interests of all of New Liberty's stockholders after giving fair consideration to the interests of the holders of each tracking stock, as well as such other or different factors considered relevant by the board (or any committee of the board authorized for this purpose, which will include the executive committee of the board).

Policies Subject to Change Without Stockholder Approval

We have set forth below the management and allocation policies as we expect them to be effective upon completion of the restructuring. We are not requesting stockholder approval of these policies.

Our board of directors may, without stockholder approval, modify, change, rescind or create exceptions to these policies, or adopt additional policies. Such actions could have different effects upon holders of Liberty Interactive common stock and Liberty Capital common stock. Our board of directors would make any such decision in accordance with its good faith business judgment that such decision is in New Liberty's best interests and the best interests of all of New Liberty's stockholders as a whole.

Any such modifications, changes, exceptions or additional policies will be binding and conclusive unless otherwise determined by the board.

Attribution of Assets

In establishing the Interactive Group, our board has attributed to it our interests in QVC, Provide, Expedia and IAC, and related assets and liabilities. The Interactive Group will be primarily focused on video and on-line commerce. All other businesses, assets and liabilities have been attributed to the Capital Group, which will be primarily focused on video programming, and communications technology and services involving cable, satellite, the Internet and evolving distribution media. The board currently contemplates that businesses, assets and liabilities acquired after the restructuring would be attributed to one of the two groups principally based upon how strongly they complement or relate to the focus or strategy of that group.

Fiduciary and Management Responsibilities

Because the Interactive Group and the Capital Group will continue to be a part of a single company, New Liberty's directors and officers will have the same fiduciary duties to holders of Liberty Interactive common stock and Liberty Capital common stock that our board of directors currently has to the holders of our existing common stock. Under Delaware law, absent an abuse of discretion, a director or officer will be deemed to have satisfied his or her fiduciary duties to us and our stockholders if that person is disinterested and acts in accordance with his or her good faith business judgment in our interests and the interests of all of our stockholders as a whole. New Liberty's board of directors and chief executive officer, in establishing and applying policies with regard to intra-company matters such as business transactions between the Interactive Group and the Capital Group and allocation of assets, liabilities, debt, corporate overhead, taxes, interest, corporate opportunities and other matters, will consider various factors and information which could benefit or cause relative detriment to the stockholders of the respective groups and will seek to make determinations which are in New Liberty's best interests and the best interests of New Liberty's stockholders as a whole. If and when there are conflicting interests between the Interactive Group and the Capital Group, New Liberty's directors will use good faith business judgment to resolve such conflicts.

Dividend Policy

We have not paid cash dividends on our existing common stock and do not anticipate that New Liberty will pay cash dividends on the Liberty Interactive common stock or the Liberty Capital common stock in the foreseeable future. For a description of the provisions of the charter amendment relating to the payment of dividends in respect of the Liberty Interactive common stock and the Liberty Capital common stock, see below under the heading " Description of Liberty Interactive Common Stock and Liberty Capital Common Stock Dividends."

Financing Activities

General. New Liberty will manage most of its financial activities on a centralized basis. These activities include the investment of surplus cash, the issuance and repayment of short-term and long-term debt and the issuance and repurchase of any preferred stock.

If New Liberty transfers cash or other property attributed to one group to the other group, New Liberty will account for such transfer as a short term loan unless the board of directors determines that a given transfer (or type of transfer) should be accounted for as a long-term loan, an inter-group interest or as a reduction of an inter-group interest. See " Inter-Group Loans" and " Inter-Group Interests" below.

New Liberty's board of directors will make these determinations, either in specific instances or by setting applicable policies generally, in the exercise of its informed business judgment. Factors New Liberty's board of directors may consider in making this determination include:

the financing needs and objectives of the receiving group;

the investment objectives of the transferring group;

the current and projected capital structure of each group;

the relative levels of internally generated funds of each group; and

the availability, cost and time associated with alternative financing sources, prevailing interest rates and general economic conditions.

New Liberty's board of directors will make all transfers of material assets from one group to the other on a fair value basis for the foregoing purposes, as determined by the board. For accounting purposes, all such assets will be deemed transferred at their carryover basis. To the extent that this amount is different than the fair value of the inter-group loan or inter-group interest created in the transaction, this difference will be recorded as an adjustment to the group equity. No gain or loss will be recognized in the statement of operations information for the groups due to the related party nature of such transactions.

Inter-Group Loans. If one group makes a loan to another group, New Liberty's board of directors will determine the terms of the loan, including the rate at which it will bear interest. New Liberty's board of directors will determine the terms of any inter-group loans, either in specific instances or by setting applicable policies generally, in the exercise of its informed business judgment. Factors New Liberty's board of directors may consider in making this determination include:

New Liberty's needs;

the use of proceeds and creditworthiness of the recipient group,

the capital expenditure plans of and the investment opportunities available to each group; and

the availability, cost and time associated with alternative financing sources.

If an inter-group loan is made, New Liberty intends to account for the loan based on its stated terms, and the resulting activity, such as interest amounts, will be recorded in the separate group financial results to be included in New Liberty's consolidated financial statements but will be eliminated in preparing New Liberty's consolidated financial statement balances.

Inter-Group Interests. An inter-group interest is a quasi-equity interest that one group is deemed to hold in the other group. Inter-group interests are not represented by outstanding shares of common stock, rather they have an attributed value which is generally stated in terms of a number of shares of Liberty Interactive common stock issuable with respect to an inter-group interest in the Interactive Group and a number of shares of Liberty Capital common stock issuable with respect to an inter-group interest in the Capital Group.

An inter-group interest in a group will be created when cash or property is transferred from one group to the other group and the board of directors determines that the transfer will not be treated as an inter-group loan. Inter-group interests may also be created in the discretion of the board of directors for certain other transactions, such as when funds of one group are used to effect an acquisition made on behalf of the other group. Additionally, inter-group interests once created are subject to adjustment for subsequent events. For instance, if the Interactive Group holds an inter-group interest in the Capital Group at the time of a transfer by the Capital Group to the Interactive Group, the board of directors may choose to reduce the Interactive Group's inter-group interest in the Capital Group rather than create an inter-group interest in the Interactive Group in favor of the Capital Group. Certain extraordinary actions that may be taken under New Liberty's amended charter may also

cause an increase or decrease in one group's inter-group interest in the other group. For more information regarding inter-group interests, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock."

If an inter-group interest is created, we intend to account for this interest in a manner similar to the equity method of accounting whereby the group holding the inter-group interest would record its proportionate share of the other group's net income or loss. Appropriate eliminating entries would be made in preparing our consolidated financial statement balances.

Equity Issuance and Repurchases and Dividends. New Liberty will reflect all financial effects of issuances and repurchases of shares relating to either group in its own consolidated financial statements. New Liberty will reflect financial effects of dividends or other distributions on, and purchases of, shares relating to either group in its own consolidated financial statements.

Inter-Group Contracts

The terms of all current and future material transactions, relationships and other matters between the groups, including those as to which the groups may have potentially divergent interests, will be determined in a manner considered by New Liberty's board of directors to be in New Liberty's best interests and the best interests of New Liberty's stockholders as a whole.

Review of Corporate Opportunities

In cases where a material corporate opportunity may appropriately be viewed as one that could be pursued by either group, New Liberty's board of directors may, independently or at the request of management, review the allocation of that corporate opportunity to either the Interactive Group or the Capital Group or in part to the Interactive Group and in part to the Capital Group. In accordance with Delaware law, New Liberty's board of directors will make its determination with regard to the allocation of any such opportunity and the benefit of such opportunity in accordance with their good faith business judgment of New Liberty's best interests and the best interests of New Liberty's stockholders as a whole. Among the factors that New Liberty's board of directors may consider in making this allocation is:

whether a particular corporate opportunity is principally related or complementary to the business focus or strategy of the Interactive Group or the Capital Group;

whether one group, because of operational expertise, will be better positioned to undertake the corporate opportunity; and

existing contractual agreements and restrictions.

Financial Statements; Allocation Matters

New Liberty will present consolidated financial statements in accordance with generally accepted accounting principles in the U.S., consistently applied. New Liberty's consolidated financial statements will include consolidating financial statement information that will show the attribution of its assets, liabilities, revenue, expenses and cash flows to each of the Interactive Group and the Capital Group.

Consolidating financial statement information will also include attributed portions of its debt, interest, corporate overhead and costs of administrative shared services and taxes. New Liberty will make these allocations for the purpose of preparing such information; however, holders of Liberty Interactive common stock and Liberty Capital common stock will continue to be subject to all of the risks associated with an investment in New Liberty and all of its businesses, assets and liabilities.

In addition to allocating debt and interest as described above, New Liberty has adopted certain expense allocation policies, each of which is reflected in the attributed financial information of the Interactive Group and the Capital Group. In general, corporate overhead will be allocated to each

group based upon the use of services by that group where practicable. Corporate overhead includes costs of personnel and employee benefits, legal, accounting and auditing, insurance, investor relations and stockholder services and services related to New Liberty's board of directors. New Liberty will allocate in a similar manner a portion of costs of administrative shared services, such as information technology services. Where determinations based on use alone are not practical, New Liberty will use other methods and criteria that New Liberty believes are equitable and that provide a reasonable estimate of the cost attributable to each group.

Taxes

From and after the closing date of the merger, taxes and tax benefits will be shared between the Capital Group and the Interactive Group in accordance with the following tax sharing policies regardless of whether or not the applicable taxes or tax benefits relate to a taxable period (or portion thereof) ending prior to the closing date of the merger (a "**Pre-Issue Date Period**"). These tax sharing policies may differ from the manner in which taxes and tax benefits of each group are reflected in the financial statements. For financial statement purposes, taxes and tax benefits allocable to each group generally have been, and will be, accounted for in a manner similar to a stand-alone company basis in accordance with generally accepted accounting principles. Any differences between the tax sharing policies described below and the taxes and tax benefits of each group reported in the financial statements will be reflected in the attributed net assets of the groups for financial statement purposes.

To the extent that federal, state, local or foreign income taxes are determined on a basis that includes the operations, assets, liabilities or other tax items of both the Capital Group and the Interactive Group, income taxes and income tax benefits will be shared between the groups based principally on the taxable income (or loss), tax credits and other tax items directly related to the activities of such group for taxable periods (or portions thereof) beginning on or after the closing date of the merger (a "**Post-Issue Date Period**"). Such allocations will reflect each group's contribution, whether positive or negative, to our consolidated taxable income (or loss), income tax liabilities and tax credit position. Income tax benefits that cannot be used by a group generating such benefits, but can be used to reduce the taxable income of the other group, will be credited to the group that generated such benefits. As a result, under this tax sharing policy, the amount of income taxes allocated to a group or the amount credited to a group for income tax benefits may not necessarily be the same as that which would have been payable or received by the group had that group filed separate income tax returns.

To the extent that federal, state, local or foreign income taxes are determined on a basis that includes the operations, assets, liabilities or other tax items of both the Capital Group and the Interactive Group in any Pre-Issue Date Period, income taxes and income tax benefits that are attributable to QVC, Inc., Provide Commerce, Inc. and their respective subsidiaries will be the responsibility of, or for the benefit of, the Interactive Group, and except as described below, all other income taxes and all other income tax benefits (including benefits received by carrying forward a tax item to a Post-Issue Date Period) arising from the tax items of each group that are attributable to any Pre-Issue Date Period will be the responsibility of, or for the benefit of, the Capital Group. However, any income tax benefit arising from tax credits or losses generated by the Interactive Group that are carried back from any Post-Issue Date Period to any Pre-Issue Date Period will be for the benefit of the Interactive Group, and any tax obligations or tax benefits of any entity acquired for the Interactive Group, which relate to any Pre-Issue Date Period, will be allocated to the Interactive Group.

If any non-income taxes are determined on a basis that includes the operations, assets, liabilities or other tax items of both the Capital Group and the Interactive Group in any taxable period, then each group will be responsible for non-income taxes, and will be entitled to any non-income tax benefits, based upon their contribution to the consolidated non-income tax liability (or benefit). Any income or non-income taxes or tax benefits that are determined on a basis that includes only the operations, assets, liabilities or other tax items of one group will be for the account of that group.

In general, for purposes of these tax sharing policies, any tax item (including any tax item arising from a disposition) attributable to an asset, liability or other interest tracked by the Liberty Interactive common stock will be allocated to the Interactive Group, and any tax item (including any tax item arising from a disposition) attributable to an asset, liability or other interest tracked by the Liberty Capital common stock will be allocated to the Capital Group. Tax items arising from employee or director compensation or employee benefits will be allocated to the group responsible for the underlying obligation (either through the allocation of the related expenses or through the issuance of stock of that group).

As described further in this proxy statement/prospectus under the heading "Risk Factors Factors Relating to the Restructuring Proposals and Ownership of "Tracking Stock" If either the Liberty Interactive common stock or the Liberty Capital common stock or both, were not treated as stock of New Liberty for tax purposes, several adverse tax consequences would result to you and to us," no ruling has been obtained from the IRS with respect to the restructuring, and it is possible that the IRS could assert that the Liberty Interactive common stock, the Liberty Capital common stock, or both are not stock of New Liberty for tax purposes. Although we think it is unlikely that the IRS would prevail on that view, if the IRS were successful in such a challenge, we and our subsidiaries would recognize a significant taxable gain as a result of the restructuring, and members of the Interactive Group and the Capital Group may not be able to file, where otherwise permitted, consolidated, combined or unitary tax returns as members of the same affiliated group. The Capital Group will be responsible for any taxes or tax items resulting from the treatment of the Liberty Interactive common stock, the Liberty Capital common stock, or both as other than stock of New Liberty, or the actual or deemed disposition of either group or any entity included in either group caused by the issuance of the Liberty Interactive common stock or the Liberty Capital common stock.

As described further in this proxy statement/prospectus under the heading "Risk Factors Factors Relating to the Restructuring Proposals and Ownership of "Tracking Stock" If the restructuring was considered to result in a "significant modification" of our outstanding publicly-traded debt for U.S. federal income tax purposes, we would incur significant tax liabilities," we have submitted a request for a private letter ruling from the IRS to the effect that the restructuring will not result in a "significant modification," and therefore a deemed exchange, of our outstanding publicly-traded debt for U.S. federal income tax purposes. However, the restructuring is not conditioned upon the receipt by us of the private letter ruling. If the restructuring was considered to result in a "significant modification" of our outstanding publicly-traded debt, it is expected that we would incur significant tax liabilities as a result of the restructuring. The cash for the payment of such taxes would be drawn from the group to which the underlying series of our outstanding publicly-traded debt is attributed. We expect that most of these tax liabilities, if they were to arise, would result from a deemed exchange of our exchangeable debentures, and, accordingly, that most of these tax liabilities would be attributed to the Capital Group.

Notwithstanding these tax sharing policies, under U.S. treasury regulations, each member of a consolidated group is severally liable for the U.S. federal income tax liability of each other member of the consolidated group. **Accordingly, each member of the New Liberty affiliated group for U.S. federal income tax purposes (whether or not such member is part of the Capital Group or the Interactive Group) could be liable to the U.S. government for any U.S. federal income tax liability incurred, but not discharged, by any other member of the New Liberty affiliated group.**

Share Repurchase Program

In connection with the restructuring, our board of directors (which will be New Liberty's board of directors) has authorized a share repurchase program pursuant to which New Liberty, if the restructuring proposals are approved and implemented, may repurchase outstanding shares of Liberty Interactive common stock and Liberty Capital common stock in the open market or in privately negotiated transactions, from time to time, subject to market conditions. Under the program, New Liberty may purchase shares of Liberty Capital common stock for an aggregate purchase price of up to \$1 billion and shares of Liberty Interactive common stock for an aggregate purchase price of up to \$1 billion. New Liberty may alter or terminate its stock repurchase program at any time.

Comparison of Old Liberty Common Stock with Liberty Interactive Common Stock and Liberty Capital Common Stock

The following summary comparison should be read together with the description of New Liberty's amended charter included under the heading " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock" below.

Old Liberty Common Stock	Liberty Capital Common Stock	Liberty Interactive Common Stock
<p>Our existing common stock reflects the performance of all of our businesses.</p>	<p style="text-align: center;">Basic Investment</p> <p>We intend the Liberty Capital common stock to reflect the separate economic performance of the assets to be included in the Capital Group. The Capital Group will initially include all of our businesses, assets and liabilities that are not attributed to the Interactive Group, including our subsidiaries Starz Entertainment Group LLC, On Command Corporation, OpenTV Corp. and TruePosition, Inc. and our equity affiliates Courtroom Television Network LLC, GSN, LLC, and WildBlue Communications, Inc. and our interests in News Corporation, Time Warner, Inc., Sprint Nextel Corporation and Motorola, Inc. and thereafter will include such other of our assets and businesses that New Liberty's board of directors may in the future determine to attribute to the Capital Group or may be acquired in the future for the Capital Group. In addition, we will attribute the portion of our existing parent company debt that is not attributed to the Interactive Group (which is \$4.58 billion principal amount, as of December 31, 2005) to the Capital Group.</p> <p>We cannot assure you that the market value of the Liberty Capital common stock will reflect the performance of the Capital Group as we intend. Holders of Liberty Capital common stock will be holders of New Liberty common stock and, as such will be subject to all</p>	<p>We intend the Liberty Interactive common stock to reflect the separate economic performance of the assets to be included in the Interactive Group. The Interactive Group will initially include our interests in (i) our subsidiaries QVC, Inc. and Provide Commerce, Inc., (ii) Expedia, Inc. and (iii) IAC/InterActiveCorp, and thereafter will include such other of our businesses, assets and liabilities that New Liberty's board of directors may in the future determine to attribute to the Interactive Group or may be acquired in the future for the Interactive Group. In addition, we will attribute \$4.48 billion principal amount (as of December 31, 2005) of our existing parent company debt to the Interactive Group.</p> <p>We cannot assure you that the market value of the Liberty Interactive common stock will in fact reflect the performance of the Interactive Group as we intend. Holders of Liberty Interactive common stock will be holders of New Liberty common stock and, as such, will be subject to all risks associated with an investment in New Liberty and all of its businesses, assets and liabilities. In addition, New Liberty could determine to pursue future business opportunities through one group instead of the other group, or jointly through both groups.</p>

risks associated with an investment in New Liberty and all of its businesses, assets and liabilities. In addition, New Liberty could determine to pursue future business opportunities through one group instead of the other group, or jointly through both groups.

Authorized Capital Stock

We are currently authorized to issue up to 4,450,000,000 shares of capital stock, consisting of 4,400,000,000 shares of common stock, of which 4,000,000,000 shares are designated as Series A common stock and 400,000,000 billion shares of our common stock are designated as Series B common stock, and 50,000,000 shares of preferred stock. Our preferred stock may be issued in one or more series as stated in a resolution adopted by our board of directors.

Under New Liberty's amended charter, New Liberty will be authorized to issue up to 4,400,000,000 shares of capital stock, of which 400,000,000 will be designated Liberty Capital Series A common stock, 25,000,000 will be designated Liberty Capital Series B common stock, and 300,000,000 will be designated Liberty Capital Series C common stock.

Under New Liberty's amended charter, New Liberty will be authorized to issue up to 4,400,000,000 shares of capital stock, of which 2,000,000,000 will be designated Liberty Interactive Series A common stock, 125,000,000 will be designated Liberty Interactive Series B common stock, and 1,500,000,000 will be designated Liberty Interactive Series C common stock.

Under New Liberty's amended charter, New Liberty will be authorized to issue 50,000,000 shares of preferred stock.

Dividend and Securities Distributions

We have never paid cash dividends on our common stock and if the restructuring is not completed we do not expect to pay any dividends on common stock in the foreseeable future.

We do not expect New Liberty to pay cash dividends on any series of Liberty Capital common stock in the foreseeable future because we expect New Liberty to retain future earnings for use in the operation and expansion of its business.

We do not expect New Liberty to pay cash dividends on any series of Liberty Interactive common stock in the foreseeable future because we expect New Liberty to retain future earnings for use in the operation and expansion of its business.

We are permitted to pay dividends when and as declared by our board. Dividends will only be paid out of assets legally available to us for the payment of dividends. Whenever a dividend is paid to holders of our Series A common stock, the holders of our Series B common stock are entitled to receive an equal dividend per share and whenever a dividend is paid to the holders of our Series B common stock the holders of

New Liberty will be permitted to pay dividends on Liberty Capital common stock, out of the lesser of its assets legally available for the payment of dividends under Delaware law and the Capital Group Available Dividend Amount (as defined under " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Dividends Available Amounts"). If dividends are

New Liberty will be permitted to pay dividends on Liberty Interactive common stock, out of the lesser of its assets legally available for the payment of dividends under Delaware law and the Interactive Group Available Dividend Amount (as defined under " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Dividends Available Amounts"). If

our Series A common stock are entitled to receive an equal dividend per share.

We are permitted to make share distributions of Series A common stock to holders of Series A common stock and Series B common stock on an equal per share basis; to make distributions of Series B common stock to holders of Series A common stock and Series B common stock on an equal per share basis; or to make distributions of Series A common stock to holders of Series A common stock and, on an equal per share basis, distributions of Series B common stock to holders of Series B common stock. We may also make a distribution of shares of any other class or series of our securities or the securities of any other person on an equal per share basis, to holders of Series A common stock and Series B common stock, subject to certain limitations.

paid on any series of Liberty Capital common stock, an equal per share dividend will be concurrently paid on the other series of Liberty Capital common stock.

If the Interactive Group has an inter-group interest in the Capital Group at the time a dividend is to be paid on Liberty Capital common stock, the Interactive Group will participate in the dividend. See " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Dividends Inter-Group Dividend Amounts" below.

New Liberty will also be permitted to make share distributions of Liberty Capital Series A, Series B or Series C common stock, respectively, to holders of all series of Liberty Capital common stock, on an equal per share basis (except that Liberty Capital Series B common stock may not be distributed to holders of Liberty Capital Series A common stock or Liberty Capital Series C common stock); share distributions of Liberty Capital Series A common stock to holders of Liberty Capital Series A common stock and, on an equal per share basis, shares of Liberty Capital Series B common stock to holders of Liberty Capital Series B common stock and, on an equal per share basis, shares of Liberty Capital Series C common stock to holders of Liberty Capital Series C common stock; share distributions of Liberty Interactive Series A, Series B or

dividends are paid on any series of Liberty Interactive common stock, an equal per share dividend will be concurrently paid on the other series of Liberty Interactive common stock.

If the Capital Group has an inter-group interest in the Interactive Group at the time a dividend is to be paid on Liberty Interactive common stock, the Capital Group will participate in the dividend. See " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Dividends Inter-Group Dividend Amounts" below.

New Liberty will also be permitted to make share distributions of Liberty Interactive Series A, Series B or Series C common stock, respectively, to holders of all series of Liberty Interactive common stock, on an equal per share basis (except that Liberty Interactive Series B common stock may not be distributed to holders of Liberty Interactive Series A common stock or Liberty Interactive Series C common stock); share distributions of Liberty Interactive Series A common stock to holders of Liberty Interactive Series A common stock and, on an equal per share basis, shares of Liberty Interactive Series B common stock to holders of Liberty Interactive Series B common stock and, on an equal per share basis, shares of Liberty Interactive Series C common stock to holders of Liberty Interactive Series C common

Series C common stock, respectively to holders of all series of Liberty Capital common stock, on an equal per share basis, subject to certain limitations (and except that Liberty Interactive Series B common stock may not be distributed to holders of Liberty Capital Series A common stock or Liberty Capital Series C common stock); share distributions of Liberty Interactive Series A common stock to holders of Liberty Capital Series A common stock and, on an equal per share basis, shares of Liberty Interactive Series B common stock to holders of Liberty Capital Series B common stock and, on an equal per share basis, shares of Liberty Interactive Series C common stock to holders of Liberty Capital Series C common stock, subject to certain limitations; and share distributions of any other class or series of its securities or the securities of any other person to holders of all series of Liberty Capital common stock, on an equal per share basis, subject to certain limitations.

stock; share distributions of Liberty Capital Series A, Series B or Series C common stock, respectively, to holders of all series of Liberty Interactive common stock, on an equal per share basis, subject to certain limitations (and except that Liberty Capital Series B common stock may not be distributed to holders of Liberty Interactive Series A common stock or Liberty Interactive Series C common stock); share distributions of Liberty Capital Series A common stock to holders of Liberty Interactive Series A common stock and, on an equal per share basis, shares of Liberty Capital Series B common stock to holders of Liberty Interactive Series B common stock and, on an equal per share basis, shares of Liberty Capital Series C common stock to holders of Liberty Interactive Series C common stock, subject to certain limitations; and share distributions of any other class or series of its securities or the securities of any other person to holders of all series of Liberty Interactive common stock, on an equal per share basis, subject to certain limitations.

Conversion at Option of Holder

Each share of our Series B common stock is convertible, at the option of the holder, into one share of Series A common stock. Shares of Series A common stock are not convertible into shares of Series B common stock.

Each share of Liberty Capital Series B common stock will be convertible, at the option of the holder, into one share of Liberty Capital Series A common stock. Shares of Liberty Capital Series A common stock and shares of Liberty Capital Series C common stock are not convertible.

Each share of Liberty Interactive Series B common stock will be convertible, at the option of the holder, into one share of Liberty Interactive Series A common stock. Shares of Liberty Interactive Series A common stock and shares of Liberty Interactive Series C common stock are not convertible.

Conversion at Option of Issuer

None.

None.

Following the first anniversary of the effective date of the restructuring (absent an earlier "tax event"), New Liberty will be able to convert each share of Liberty Interactive Series A, Series B and Series C common stock into a number of shares of the corresponding series of Liberty Capital common stock at a ratio based on the relative trading prices of the Liberty Interactive Series A common stock (or another series of Liberty Interactive common stock subject to certain limitations) and the Liberty Capital Series A common stock (or another series of Liberty Capital common stock subject to certain limitations) over a specified 60-trading day period. For a description of the "tax event" referred to above, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Conversion and Exchange Conversion of Liberty Interactive Common Stock at Liberty's Option."

Optional Redemption for Stock of a Subsidiary

None.

If at any time a "Qualifying Subsidiary" holds assets and liabilities attributed to the Capital Group and no other assets or liabilities, New Liberty may redeem outstanding shares of Liberty Capital common stock for shares of common stock of such Qualifying Subsidiary owned by New Liberty provided that New Liberty's board of directors has determined that such redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) under Section 355 of the Internal Revenue Code to holders of Liberty Capital common stock. For the definition of "Qualifying Subsidiary" and additional information regarding such redemptions, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Optional Redemption for Stock of a Subsidiary Redemption of Liberty Capital Common Stock."

If at any time a Qualifying Subsidiary holds assets and liabilities attributed to the Interactive Group and no other assets or liabilities, New Liberty may redeem outstanding shares of Liberty Interactive common stock for shares of common stock of such Qualifying Subsidiary owned by New Liberty provided that New Liberty's board of directors has determined that such redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) under Section 355 of the Internal Revenue Code to holders of Liberty Interactive common stock. For additional information regarding such redemptions, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Optional Redemption for Stock of a Subsidiary Redemption of Liberty Interactive Common Stock."

Mandatory Dividend, Redemption and Conversion Rights on Disposition of Assets

None.	<p>If New Liberty disposes, in one transaction or a series of transactions, of all or substantially all of the assets of the Capital Group, New Liberty is required to choose one of the following four alternatives, unless the board obtains approval of the holders of Liberty Capital common stock to not take such action or the disposition qualifies for one of the other specified exemptions (in which case New Liberty will not be required to take any of the following actions):</p> <p>pay a dividend to holders of Liberty Capital common stock out of the available net proceeds of such disposition;</p> <p>if there are legally sufficient assets and the Capital Group Available Dividend Amount would have been sufficient to pay a dividend, then: (i) if the disposition involves all of the properties and assets of the Capital Group, redeem all outstanding shares of Liberty Capital common stock in exchange for cash and/or securities or other assets with a fair value equal to the available net proceeds of such disposition, or (ii) if the disposition involves substantially all (but not all) of the properties and assets of the Capital Group, redeem outstanding shares of Liberty Capital common stock in exchange for cash and/or securities or other property with a fair value</p>	<p>If New Liberty disposes, in one transaction or a series of transactions, of all or substantially all of the assets of the Interactive Group, New Liberty is required to choose one of the following four alternatives, unless the board obtains approval of the holders of Liberty Interactive common stock to not take such action or the disposition qualifies for one of the other specified exemptions (in which case New Liberty will not be required to take any of the following actions):</p> <p>pay a dividend to holders of Liberty Interactive common stock out of the available net proceeds of such disposition;</p> <p>if there are legally sufficient assets and the Interactive Group Available Dividend Amount would have been sufficient to pay a dividend, then: (i) if the disposition involves all of the properties and assets of the Interactive Group, redeem all outstanding shares of Liberty Interactive common stock in exchange for cash and/or securities or other assets with a fair value equal to the available net proceeds of such disposition, or (ii) if the disposition involves substantially all (but not all) of the properties and assets of the Interactive Group, redeem outstanding shares of Liberty Interactive common stock in exchange for cash and/or securities or other property with a fair</p>
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equal to the available net proceeds of such disposition; or

convert each outstanding share of each series of Liberty Capital common stock into a number of shares of the corresponding series of Liberty Interactive common stock at a specified premium; or

combine a conversion of a portion of the outstanding shares of Liberty Capital common stock with the payment of a dividend on or redemption of shares of Liberty Capital common stock, as described above and subject to certain limitations.

For more information regarding such dispositions, including the criteria for exemption from the mandatory dividend, redemption or conversion provisions described above, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group Capital Group Dispositions."

value equal to the available net proceeds of such disposition; or

convert each outstanding share of each series of Liberty Interactive common stock into a number of shares of the corresponding series of Liberty Capital common stock at a specified premium; or

combine a conversion of a portion of the outstanding shares of Liberty Interactive common stock with the payment of a dividend on or redemption of shares of Liberty Interactive common stock, as described above and subject to certain limitations.

For more information regarding such dispositions, including the criteria for exemption from the mandatory dividend, redemption or conversion provisions described above, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group Interactive Group Dispositions."

Voting Rights

Holders of our existing Series A common stock are entitled to one vote for each share of such stock held and holders of our existing Series B common stock are entitled to ten votes for each share of such stock held on all matters submitted to a vote of our stockholders at any annual or special meeting. Holders of our Series A common stock and Series B common stock vote as a class, except to the extent separate series votes are required by Delaware law or our existing charter.

Holders of Liberty Capital Series A common stock will be entitled to one vote for each share of such stock held and holders of Liberty Capital Series B common stock will be entitled to ten votes for each share of such stock held on all matters submitted to a vote of our stockholders. Holders of Liberty Capital Series C common stock will not be entitled to any voting powers except as otherwise required by Delaware law. When so required, holders of Liberty Capital Series C common stock will be entitled to 1/100th of a vote for each share of such stock held.

Holders of Liberty Interactive Series A common stock will be entitled to one vote for each share of such stock held and holders of Liberty Interactive Series B common stock will be entitled to ten votes for each share of such stock held on all matters submitted to a vote of our stockholders. Holders of Liberty Interactive Series C common stock will not be entitled to any voting powers except as otherwise required by Delaware law. When so required, holders of Liberty Interactive Series C common stock will be entitled to 1/100th of a vote for each share of such stock held.

Holders of Liberty Capital common stock will vote as one class with holders of Liberty Interactive common stock on all matters that are submitted to a vote of New Liberty's stockholders unless a separate class vote is required by New Liberty's amended charter or Delaware law. In connection with certain dispositions of Capital Group assets, the board of directors may determine to seek approval of the holders of Liberty Capital Series A and Series B common stock, voting together as a separate class, to avoid effecting a mandatory dividend, redemption or conversion under New Liberty's amended charter. For more information regarding the voting rights of the Capital Group, see " Description of Liberty Interactive Common Stock and Liberty Capital Common Stock Voting Rights."

Holders of Liberty Interactive common stock will vote as one class with holders of Liberty Capital common stock on all matters that are submitted to a vote of New Liberty's stockholders unless a separate class vote is required by New Liberty's amended charter or Delaware law. In connection with certain dispositions of Interactive Group assets, the board of directors may determine to seek approval of the holders of Liberty Interactive Series A and Series B common stock, voting together as a separate class, to avoid effecting a mandatory dividend, redemption or conversion under New Liberty's amended charter. For more information regarding the voting rights of the Interactive Group, see " Description of Liberty Interactive Common Stock and Liberty Capital Common Stock Voting Rights."

Inter-Group Interest

None.	Initially, the Capital Group will have no inter-group interest in the Interactive Group. From time to time, the board of directors may determine to create an inter-group interest in the Interactive Group in favor of the Capital Group, subject to the terms of New Liberty's amended charter.	Initially, the Interactive Group will have no inter-group interest in the Capital Group. From time to time, the board of directors may determine to create an inter-group interest in the Capital Group in favor of the Interactive Group, subject to the terms of New Liberty's amended charter.
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Liquidation

Upon our liquidation, dissolution or winding up, holders of our existing common stock are entitled to receive our net assets, if any, remaining for distribution to holders of our common stock (after payment or provision for all of our liabilities and payment of the preferential amounts to which any series of preferred stock is entitled) on a per share basis.	Upon New Liberty's liquidation, dissolution or winding up, holders of shares of Liberty Capital common stock and the holders of shares of Liberty Interactive common stock will be entitled to receive in respect of shares of Liberty Capital common stock and Liberty Interactive common stock their proportionate interests in New Liberty's assets, if any, remaining for distribution to holders of New Liberty common stock (regardless of the group to which such assets are then attributed) in proportion to their respective number of liquidation units per share of Liberty Capital common stock and Liberty Interactive common stock.
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Each share of Liberty Capital common stock will have one liquidation unit, subject to adjustment.	Each share of Liberty Interactive common stock will have a number of liquidation units (including a fraction of one liquidation unit) equal to the quotient of the volume weighted average price of one share of Liberty Interactive Series A common stock over the first 20 trading days on which the Liberty Interactive Series A common stock trades in the regular way market, divided by the volume weighted average price of one share of Liberty Capital Series A common stock over the first 20 trading days on which the Liberty Capital Series A common stock trades in the regular way market, subject to adjustment.
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For additional information regarding liquidation units, including events requiring an adjustment thereto, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Liquidation and Dissolution."

Stock Exchange Listings

Our existing Series A common stock and Series B common stock is listed on the NYSE under the symbols "L" and "LMC.B" respectively.

We have applied to list Liberty Capital Series A common stock and Series B common stock on the Nasdaq National Market under the symbols "LCAPA" and "LCAPB," respectively.

We have applied to list Liberty Interactive Series A common stock and Series B common stock on the Nasdaq National Market under the symbols "LINTA" and "LINTB," respectively.

Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock

The following is a summary of the Liberty Interactive common stock and the Liberty Capital common stock and reflects the terms of New Liberty's amended charter. This summary may not contain all the information that is important to you. It is qualified in its entirety by reference to the form of New Liberty's amended charter included as Annex C, which is incorporated herein by reference.

General

Our current restated certificate of incorporation (which we call our "**current charter**") authorizes us to issue four billion four hundred fifty million (4,450,000,000) shares, consisting of four billion (4,000,000,000) shares of Series A common stock, par value \$.01 per share (our "**existing Series A common stock**"), four hundred million (400,000,000) shares of Series B common stock, par value \$.01 per share (our "**existing Series B Common stock**"), and fifty million (50,000,000) shares of preferred stock, par value \$.01 per share (our "**preferred stock**"). As of February 28, 2006, we had approximately 2,682,435,330 shares of Series A common stock, 121,062,825 shares of Series B common stock and no shares of preferred stock issued and outstanding

If the restructuring is completed, all of our existing common stock will be exchanged for shares of Liberty Capital common stock and Liberty Interactive common stock, the terms of which will be defined by New Liberty's amended charter. Under New Liberty's amended charter, New Liberty's authorized capital stock will be as follows:

four billion three hundred fifty million (4,350,000,000) authorized shares of common stock, consisting of:

four hundred million (400,000,000) shares of Liberty Capital Series A common stock,

twenty-five million (25,000,000) shares of Liberty Capital Series B common stock,

three hundred million (300,000,000) shares of Liberty Capital Series C common stock,

two billion (2,000,000,000) shares of Liberty Interactive Series A common stock,

one hundred and twenty-five million (125,000,000) shares of Liberty Interactive Series B common stock,

one billion five hundred million (1,500,000,000) shares of Liberty Interactive Series C common stock, and

fifty million (50,000,000) authorized shares of preferred stock, which the board will be authorized to issue in series that it designates.

New Liberty's amended charter defines the assets and liabilities to be attributed to each of the Capital Group and the Interactive Group, as follows:

"Interactive Group" means:

our direct and indirect interests in QVC (including any successor to all or substantially all of the assets of QVC), Provide Commerce (including any successor to all or substantially all of the assets of Provide Commerce), Expedia (including any successor to all or substantially all of the assets of Expedia) and IAC (including any successor to all or substantially all of the assets of IAC) and their respective assets, liabilities and businesses at the effective time of the restructuring;

any other of our assets, liabilities and businesses attributed to the Interactive Group at the effective time of the restructuring;

all assets, liabilities and businesses acquired by us or any of our subsidiaries for the account of, or contributed, allocated or otherwise transferred to the Interactive Group, as determined by the board of directors;

the proceeds of any sale, transfer, exchange, assignment or other disposition of any of the foregoing; and

any inter-group interest (as defined below) in the Capital Group at any time attributed to the Interactive Group.

"Capital Group" means:

our direct and indirect interests at the effective time of the restructuring in all of the businesses in which we are or have been engaged, directly or indirectly, and in the respective assets and liabilities of us or any of our subsidiaries, other than any businesses, assets or liabilities attributed to the Interactive Group at the effective time of the restructuring;

all assets, liabilities and businesses acquired by us or any of our subsidiaries for the account of, or contributed, allocated or otherwise transferred to the Capital Group, as determined by the board of directors;

the proceeds of any sale, transfer, exchange, assignment or other disposition of any of the foregoing; and

any inter-group interest in the Interactive Group at any time attributed to the Capital Group.

An **"inter-group interest"** means, as of any date, an undivided quasi-equity interest in one group held by the other group. Inter-group interests are not represented by outstanding shares of common stock, however they are generally stated in terms of a notional number of shares issuable of the group in which the inter-group interest is being created. The number of shares issuable is generally determined by dividing the aggregate dollar value of the funds contributed, or the aggregate fair market value of the assets allocated, to the other group by the market price of the common stock of the group in which the inter-group interest is being created. More specifically, the **"Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest"** is the notional number of shares of Liberty Interactive common stock in which the inter-group interest of the Capital Group in the Interactive Group will be stated, as of any date, and the **"Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest"** is the notional number of shares of Liberty Capital common stock in which the inter-group interest of the Interactive Group in the Capital Group will be stated, as of any date. Initially, neither group will have an inter-group interest in the other group.

Inter-group interests are created in the discretion of the board of directors for specific transactions, such as when funds of one group are used to effect an acquisition of assets or businesses to be attributed to the other group. Inter-group interests once created may be increased or decreased for subsequent events. For instance, if the Interactive Group holds an inter-group interest in the Capital Group at the time funds or assets are contributed by the Capital Group to the Interactive Group, the board of directors may choose to reduce the Interactive Group's inter-group interest in the Capital Group rather than create an inter-group interest in the Interactive Group in favor of the Capital Group. Such a reduction would take the form of a reduction in the Number of Shares of Issuable With Respect to the Capital Group Inter-Group Interest. The board may also forego creating or adjusting an inter-group interest by accounting for a transfer of funds or assets or a similar transaction as a short-term loan or long-term loan. See "The Restructuring Proposals Management and Allocation Policies." Throughout the following discussion of New Liberty's amended charter, we describe other circumstances in which inter-group interests may be created, increased or decreased.

New Liberty may from time to time, by action of its board of directors:

offer shares of Liberty Capital common stock or Liberty Interactive common stock for cash in one or more public offerings;

issue shares of Liberty Capital common stock or Liberty Interactive common stock as consideration for acquisitions or investments;

issue shares of Liberty Capital common stock or Liberty Interactive common stock to its employees pursuant to its stock-based compensation plans or otherwise as compensation; or

issue shares of Liberty Capital common stock or Liberty Interactive common stock for any other proper corporate purpose.

As long as sufficient authorized shares are available, the timing, sequence, size and terms of such transactions would be determined by New Liberty's board of directors, without further approval of the stockholders, unless deemed advisable by New Liberty's board of directors in its sole discretion or required by applicable law, regulation or stock exchange requirements.

Board of Directors

Any determination made by New Liberty's board of directors under any provision of New Liberty's amended charter will be final and binding on all of New Liberty's stockholders, except as may otherwise be required by law. References to actions or determinations to be taken or made by New Liberty's board of directors under New Liberty's amended charter will include actions or determinations made by any committee of the board that has been authorized by the board to act on such matters, including the executive committee of the board.

Voting Rights

Currently, holders of Old Liberty Series A common stock have one vote per share and holders of Old Liberty Series B common stock have 10 votes per share on all matters submitted to a vote of stockholders. Holders of Old Liberty Series A common stock and holders of Old Liberty Series B common stock vote together as one class on all matters as to which common stockholders generally are entitled to vote, except as otherwise required by Delaware law.

Once the restructuring is completed, holders of Liberty Capital Series A common stock, Liberty Capital Series B common stock, Liberty Interactive Series A common stock and Liberty Interactive Series B common stock will vote together as one class on all matters as to which common stockholders generally are entitled to vote, unless a separate class vote is required by New Liberty's amended charter (as described below) or Delaware law.

On all matters submitted to a vote of New Liberty's stockholders:

each outstanding share of Liberty Capital Series A common stock entitles the holder to one vote per share, and each outstanding share of Liberty Interactive Series A common stock entitles the holder to one vote per share; and

each outstanding share of Liberty Capital Series B common stock entitles the holder to 10 votes per share, and each outstanding share of Liberty Interactive Series B common stock entitles the holder to 10 votes per share.

Holders of Liberty Capital Series C common stock and Liberty Interactive Series C common stock will not be entitled to vote on any matter, except as required by Delaware law, in which case, each share of Liberty Capital Series C common stock and each share of Liberty Interactive Series C common stock entitles the respective holder to 1/100th of a vote per share.

New Liberty's amended charter provides for a separate class vote under the following circumstances:

in connection with a disposition of all or substantially all of the Capital Group's assets when New Liberty's board of directors determines to seek the approval of holders of Liberty Capital Series A common stock and holders of Liberty Capital Series B common stock, voting together as a separate class, to classify the disposition as exempt from the mandatory dividend, redemption or conversion provisions otherwise applicable to the Liberty Capital common stock as a result of such disposition; and

in connection with a disposition of all or substantially all of the Interactive Group's assets when New Liberty's board of directors determines to seek the approval of holders of Liberty Interactive Series A common stock and holders of Liberty Interactive Series B common stock, voting together as a separate class, to classify the disposition as exempt from the mandatory dividend, redemption or conversion provisions otherwise applicable to the Liberty Interactive common stock as a result of such disposition.

The foregoing separate class voting rights are in addition to any vote of all of New Liberty's stockholders that may be required by New Liberty's amended charter or Delaware law. For more information regarding these class voting rights, see "Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group Capital Group Dispositions" and "Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group International Group Dispositions," respectively.

Dividends

Available Amounts. We have never paid cash dividends on our common stock and we currently intend to retain all of our available funds to finance operations, repay our indebtedness and fund future growth. Following the restructuring, we do not expect that New Liberty will pay cash dividends on Liberty Capital common stock or Liberty Interactive common stock for the foreseeable future. Under New Liberty's amended charter, New Liberty will be permitted to declare and pay cash dividends:

on Liberty Capital common stock, out of the lesser of New Liberty's assets legally available for the payment of dividends under Delaware law and the Capital Group Available Dividend Amount (as defined below); and

on Liberty Interactive common stock, out of New Liberty's assets legally available for the payment of dividends under Delaware law and the Interactive Group Available Dividend Amount (as defined below).

We cannot assure you whether there will be an available dividend amount for either group.

"Capital Group Available Dividend Amount," as of any date, means generally: (i) the excess of the total assets of the Capital Group less the total liabilities of the Capital Group as of such date over the aggregate par value of, or any greater amount determined to be capital in respect of, all outstanding shares of Liberty Capital common stock or (ii) in case there is no such excess, an amount equal to the earnings or loss attributable to the Capital Group (if positive) for the fiscal year in which such date occurs and/or the preceding fiscal year.

"Interactive Group Available Dividend Amount," as of any date, means generally: (i) the excess of the total assets of the Interactive Group less the total liabilities of the Interactive Group as of such date over (B) the aggregate par value of, or any greater amount determined to be capital in respect of, all outstanding shares of Liberty Interactive common stock, or (ii) in case

there is no such excess, an amount equal to the earnings or loss attributable to the Interactive Group (if positive) for the fiscal year in which such date occurs and/or the preceding fiscal year.

Inter-Group Dividend Amounts Capital Group Dividend. If the Interactive Group holds an inter-group interest in the Capital Group (which means that the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest is greater than zero) on the record date for any dividend or distribution with respect to the Liberty Capital common stock, then unless the dividend or distribution consists of shares of New Liberty's common stock, the board of directors will compensate the Interactive Group for its inter-group interest in the Capital Group by causing the Interactive Group to receive (or be attributed (including through the creation of or an increase in an existing inter-group interest)), concurrently with the payment of such dividend on the shares of Liberty Capital common stock, cash, securities and/or other property with a fair value equal to that which the Interactive Group would have received had the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest been issued and outstanding shares of Liberty Capital common stock on the record date for the dividend or distribution.

If, however, the dividend or distribution consists of Liberty Capital common stock, the board of directors will compensate the Interactive Group by increasing the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest or making a distribution of shares of Liberty Capital Common Stock to holders of Liberty Interactive common stock.

If the dividend or distribution consists of Liberty Interactive common stock, the board of directors will compensate the Interactive Group by decreasing the Number of Shares Issuable With Respect to Interactive Group Inter-Group Interest thereby decreasing the Capital Group's inter-group interest in the Interactive Group.

Interactive Group Dividend. If the Capital Group holds an inter-group interest in the Interactive Group (which means that the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest is greater than zero) on the record date for any dividend or distribution with respect to the Liberty Interactive common stock, then unless the dividend or distribution consists of shares of New Liberty's common stock, the board of directors will compensate the Capital Group for its inter-group interest in the Interactive Group by causing the Capital Group to receive (or be attributed (including through the creation of or an increase in an existing inter-group interest)), concurrently with the payment of such dividend on the shares of Liberty Interactive common stock, cash, securities and/or other property with a fair value equal to that which the Capital Group would have received had the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest been issued and outstanding shares of Liberty Interactive common stock on the record date for the dividend or distribution.

If, however, the dividend or distribution consists of Liberty Interactive common stock, the board of directors will compensate the Capital Group by increasing the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest or making a distribution of shares of Liberty Interactive common stock to holders of Liberty Capital common stock.

If the dividend or distribution consists of Liberty Capital common stock, the board of directors will compensate the Capital Group by decreasing the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest thereby decreasing the Interactive Group's inter-group interest in the Capital Group.

General. Subject to the foregoing limitations as well as those noted under " Share Distributions" below (and to any other limitations set forth in any future series of preferred stock or in any agreements binding on us from time to time), New Liberty has the sole discretion and authority to pay dividends on, or refrain from declaring and paying dividends on, its common stock. **Notwithstanding the foregoing, if dividends are paid on any series of common stock of either group, then an equal per**

share dividend will be concurrently paid on each other series of common stock of that group. For example, if New Liberty's board of directors declared and paid a cash dividend on the Liberty Capital Series B common stock, it would be required to declare and pay a cash dividend in the same per share amount on each outstanding share of Liberty Capital Series A common stock and Liberty Capital Series C common stock. However, it would not be required to declare and pay any dividend on any shares of Liberty Interactive common stock.

Share Distributions

Distributions on Liberty Capital Common Stock. If at any time, a share distribution is to be paid in Liberty Capital common stock, such share distribution may be declared and paid only as follows (or as described under " Conversion and Exchange" below with respect to the redemptions and other distributions referred to therein):

a share distribution consisting of shares of Liberty Capital Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series A common stock) to holders of Liberty Capital Series A common stock, Liberty Capital Series B common stock and Liberty Capital Series C common stock, on an equal per share basis;

a share distribution consisting of shares of Liberty Capital Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series C common stock) to holders of Liberty Capital Series A common stock, Liberty Capital Series B common stock and Liberty Capital Series C common stock, on an equal per share basis;

a share distribution consisting of shares of Liberty Capital Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series A common stock) to holders of Liberty Capital Series A common stock, and shares of Liberty Capital Series B common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series B common stock) to holders of Liberty Capital Series B common stock, and shares of Liberty Capital Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series C common stock) to holders of Liberty Capital Series C common stock, in each case, on an equal per share basis;

a share distribution consisting of Liberty Interactive Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series A common stock) to holders of Liberty Capital Series A common stock, Liberty Capital Series B common stock and Liberty Capital Series C common stock, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Interactive Group Inter-Group Interest, which means that a share distribution consisting of Liberty Interactive Series A common stock may only be paid on Liberty Capital common stock to the extent of the Capital Group's inter-group interest in the Interactive Group;

a share distribution consisting of Liberty Interactive Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series C common stock) to holders of Liberty Capital Series A common stock, Liberty Capital Series B common stock and Liberty Capital Series C common stock, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Interactive Group Inter-Group Interest, which means that a share distribution consisting of Liberty Interactive Series C common stock may only be paid on Liberty Capital common stock to the extent of the Capital Group's inter-group interest in the Interactive Group;

a share distribution consisting of shares of Liberty Interactive Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series A common stock) to holders of Liberty Capital Series A common stock, and shares of Liberty Interactive Series B common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series B common stock) to holders of Liberty Capital Series B common stock, and shares of Liberty Interactive Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series C common stock) to holders of Liberty Capital Series C common stock, in each case, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Interactive Group Inter-Group Interest, which means that a share distribution consisting of Liberty Interactive Series A, Series B and Series C common stock may only be paid on Liberty Capital common stock to the extent of the Capital Group's inter-group interest in the Interactive Group; or

a share distribution consisting of any class or series of New Liberty's securities or the securities of any other person other than as described in the preceding bullet points, on the basis of a distribution of (i) identical securities, on an equal per share basis, to holders of each series of Liberty Capital common stock, (ii) separate classes or series of securities, on an equal per share basis, to the holders of the respective series of Liberty Capital common stock or (iii) a separate class or series of securities to the holders of one or more series of Liberty Capital common stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of Liberty Capital Common stock, subject to certain limitations.

New Liberty will not subdivide, consolidate or reclassify any series of Liberty Capital common stock without subdividing, consolidating or reclassifying each other outstanding series of Liberty Capital common stock on an equal per share basis.

Distributions on Liberty Interactive Common Stock. If at any time a share distribution is to be made with respect to Liberty Interactive common stock, such share distribution may be declared and paid only as follows (or as described under " Conversion and Exchange" below with respect to the redemptions and other distributions referred to therein):

a share distribution consisting of shares of Liberty Interactive Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series A common stock) to holders of Liberty Interactive Series A common stock, Liberty Interactive Series B common stock and Liberty Interactive Series C common stock, on an equal per share basis;

a share distribution consisting of shares of Liberty Interactive Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series C common stock) to holders of Liberty Interactive Series A common stock, Liberty Interactive Series B common stock and Liberty Interactive Series C common stock, on an equal per share basis;

a share distribution consisting of shares of Liberty Interactive Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series A common stock) to holders of Liberty Interactive Series A common stock, and shares of Liberty Interactive Series B common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series B common stock) to holders of Liberty Interactive Series B common stock, and shares of Liberty Interactive Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series C common stock) to holders of Liberty Interactive Series C common stock, in each case, on an equal per share basis;

a share distribution consisting of Liberty Capital Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series A common stock) to holders of Liberty Interactive Series A common stock, Liberty Interactive Series B common stock and Liberty Interactive Series C common stock, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Capital Group Inter-Group Interest, which means that a share distribution consisting of Liberty Capital Series A common stock may only be paid on Liberty Interactive common stock to the extent of the Interactive Group's inter-group interest in the Capital Group;

a share distribution consisting of Liberty Capital Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series C common stock) to holders of Liberty Interactive Series A common stock, Liberty Interactive Series B common stock and Liberty Interactive Series C common stock, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Capital Group Inter-Group Interest, which means that a share distribution consisting of Liberty Capital Series C common stock may only be paid on Liberty Interactive common stock to the extent of the Interactive Group's inter-group interest in the Capital Group;

a share distribution consisting of shares of Liberty Capital Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series A common stock) to holders of Liberty Interactive Series A common stock, and shares of Liberty Capital Series B common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series B common stock) to holders of Liberty Interactive Series B common stock, and shares of Liberty Capital Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series C common stock) to holders of Liberty Interactive Series C common stock, in each case, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Capital Group Inter-Group Interest, which means that a share distribution consisting of Liberty Capital Series A, Series B and Series C common stock may only be paid on Liberty Interactive common stock to the extent of the Interactive Group's inter-group interest in the Capital Group; or

a share distribution consisting of any class or series of New Liberty's securities or the securities of any other person other than as described in the preceding bullet points, on the basis of a distribution of (i) identical securities, on an equal per share basis, to holders of each series of Liberty Interactive common stock, (ii) separate classes or series of securities, on an equal per share basis, to the holders of the respective series of Liberty Interactive common stock or (iii) a separate class or series of securities to the holders of one or more series of Liberty Interactive common stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of Liberty Interactive common stock, subject to certain conditions.

New Liberty will not subdivide, consolidate or reclassify any series of Liberty Interactive common stock without subdividing, consolidating or reclassifying each other outstanding series of Liberty Interactive common stock in the same proportion and the same manner.

Conversion and Exchange

Conversion at the Option of the Holder. Each share of Series B common stock of a group will be convertible, at the option of the holder thereof, into one share of Series A common stock of the same group. Shares of Series A and Series C common stock of a group will not be convertible into shares of any other series.

Conversion of Liberty Interactive Common Stock at Liberty's Option. Following the first anniversary of the effective date of the restructuring (absent the earlier occurrence of a "tax event" (as defined below)), New Liberty's board of directors may convert each share of Liberty Interactive Series A common stock into a number (or fraction) of shares of Liberty Capital Series A common stock, each share of Liberty Interactive Series B common stock into a number (or fraction) of shares of Liberty Capital Series B common stock and each share of Liberty Interactive Series C common stock into a number (or fraction) of shares of Liberty Capital Series C common stock, in each case based upon the ratio of the average market value of one share of Liberty Interactive Series A common stock (or another series of Liberty Interactive common stock subject to certain limitations) over a specified 60-trading day period to the average market value of one share of Liberty Capital Series A common stock (or another series of Liberty Capital common stock subject to certain limitations) over the same 60-trading day period. The average market value is determined based upon the average of the high and low reported sales prices regular way for shares of the applicable series of common stock on each trading day during the period or, absent reported sales, the average of the reported bid and ask prices regular way for the shares of the applicable series of common stock on each trading day during the period.

Prior to the first anniversary of the effective date of the restructuring, New Liberty's board of directors may effect such a conversion only as a result of a "tax event." A "**tax event**" occurs when, due to an amendment, clarification, change or proposed change in the tax laws, there is a risk that (i) any issuance of Liberty Interactive common stock or Liberty Capital common stock would be treated as a sale or other taxable disposition by us, (ii) the existence of the Liberty Interactive common stock or Liberty Capital common stock would subject us or our stockholders to imposition of tax or adverse tax consequences, or (iii) either Liberty Interactive common stock or Liberty Capital common stock is not or at any time in the future would not be treated solely as common stock of New Liberty for tax purposes.

The following illustration demonstrates the calculation of the number of shares issuable upon conversion of one share of Liberty Interactive Series A common stock into shares of Liberty Capital Series A common stock at our option, if:

the average market value of one share of Liberty Capital Series A common stock as of the applicable determination date is \$50; and

the average market value of one share of Liberty Interactive Series A common stock as of the applicable determination date is \$25.

In this case, each share of Liberty Interactive common stock would be converted into 0.5 of a share of the corresponding series of Liberty Capital common stock at the conversion ratio of: $\$25/\50 or 0.5 of a share.

These provisions allow New Liberty the flexibility to recapitalize the Liberty Interactive common stock into Liberty Capital common stock, thereby terminating the tracking stock structure. The optional conversion may be exercised, subject to the timing restrictions described above, if New Liberty's board of directors determines that, under the facts and circumstances then existing, New Liberty's existing tracking stock structure is no longer in the best interests of New Liberty's stockholders, as a whole. An optional conversion could be effected at a time that is disadvantageous to the holders of the Liberty Interactive common stock or the Liberty Capital common stock. See "Risk Factors Factors Relating to the Restructuring Proposals and Ownership of "Tracking Stock" The adoption of a tracking stock capital structure could create conflicts of interest, and New Liberty's board of directors may make decisions that could adversely affect only some holders of New Liberty's common stock."

Any such conversion would dilute possibly the interests of holders of Liberty Capital common stock and would preclude holders of Liberty Interactive common stock from retaining their interest in a

security intended to reflect separately the business of the Interactive Group. See "Risk Factors Risk Factors Relating to the Restructuring Proposals and ownership of "Tracking Stock" Following the first anniversary of the restructuring (absent an earlier triggering event), New Liberty's board of directors may in its sole discretion elect to convert Liberty Interactive common stock into Liberty Capital common stock, thereby changing the nature of your investment and possibly diluting your economic interest in New Liberty, which could result in a loss in value to you."

No Conversion of Liberty Capital Common Stock at Liberty's Option. Shares of Liberty Capital common stock are not convertible into shares of Liberty Interactive common stock, other than as described under " Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group Capital Group Dispositions."

Optional Redemption for Stock of a Subsidiary

Redemption of Liberty Capital Common Stock. If at any time a Qualifying Subsidiary (as defined below) holds assets and liabilities attributed to the Capital Group and no other assets or liabilities, New Liberty may redeem outstanding shares of Liberty Capital common stock for shares of common stock of such Qualifying Subsidiary owned by New Liberty provided that New Liberty's board of directors has determined that such redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) under Section 355(a) of the Internal Revenue Code to holders of Liberty Capital common stock.

"Qualifying Subsidiary" means one of New Liberty's subsidiaries in which our direct or indirect ownership and voting interest is sufficient to satisfy the ownership and voting requirements for a distribution of New Liberty's interest in that subsidiary to New Liberty's stockholders in a transaction that qualifies for nonrecognition of gain or loss (in whole or in part) under Section 355(a) of the Internal Revenue Code. Under current law, New Liberty would need to hold at least 80% of the voting power of all classes of stock entitled to vote and 80% of the total number of shares of each class of non-voting stock of a subsidiary for it to qualify as a Qualifying Subsidiary.

The number of shares of Liberty Capital common stock to be redeemed will be determined by multiplying the number of outstanding shares of Liberty Capital common stock by the percentage of the fair market value of the Capital Group that is represented by the fair market value of New Liberty's equity interest in the Qualifying Subsidiary, in each case, as determined by New Liberty's board of directors. Redemptions will be made pro rata, and New Liberty will distribute all of the shares of the Qualifying Subsidiary owned by New Liberty in redemption of the shares of Liberty Capital common stock to be redeemed, unless at the time of the redemption (i) the Interactive Group has an inter-group interest in the Capital Group and (ii) the board of directors elects to cause the Interactive Group to participate in the redemption. If the board of directors makes this election, the Interactive Group will receive (or be attributed) a number of shares of the Qualifying Subsidiary owned by us based upon the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest at the record date for the redemption compared to the number of then-outstanding shares of Liberty Capital common stock, and the remaining shares of the Qualifying Subsidiary owned by New Liberty will be distributed in the redemption of outstanding shares of Liberty Capital common stock. In addition, if the board of directors makes this election, New Liberty may distribute the shares of the Qualifying Subsidiary received by or attributed to the Interactive Group to the holders of Liberty Interactive common stock. New Liberty also will reduce the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest as if the applicable portion of the notional shares reflecting such inter-group interest had been redeemed.

In effecting such a redemption the board of directors may either:

redeem shares of each series of Liberty Capital common stock in exchange for shares of a single class or series of common stock of the Qualifying Subsidiary without distinction among the shares distributed to the holders of each series of Liberty Capital common stock;

redeem shares of each series of Liberty Capital common stock in exchange for shares of separate classes or series of common stock of the Qualifying Subsidiary, on an equal per share basis; or

redeem shares of one or more series of Liberty Capital common stock in exchange for shares of a separate class or series of common stock of the Qualifying Subsidiary and, on an equal per share basis, redeem shares of all other series of Liberty Capital common stock in exchange for shares of a different class or series of common stock of the Qualifying Subsidiary.

Redemption of Liberty Interactive Common Stock. If at any time a Qualifying Subsidiary holds assets and liabilities attributed to the Interactive Group and no other assets or liabilities, New Liberty may redeem outstanding shares of Liberty Interactive common stock for shares of common stock of such Qualifying Subsidiary owned by New Liberty provided that New Liberty's board of directors has determined that such redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) under Section 355(a) of the Internal Revenue Code to holders of Liberty Interactive common stock. The number of shares of Liberty Interactive common stock to be redeemed will be determined by multiplying the number of outstanding shares of Liberty Interactive common stock by the percentage of the fair market value of the Interactive Group that is represented by the fair market value of New Liberty's equity interest in the Qualifying Subsidiary, in each case, as determined by New Liberty's board of directors. Redemptions will be made pro rata, and New Liberty will distribute all of the shares of the Qualifying Subsidiary owned by New Liberty in redemption of the shares of Liberty Interactive common stock to be redeemed, unless at the time of the redemption (i) the Capital Group has an inter-group interest in the Interactive Group and (ii) the board of directors elects to cause the Capital Group to participate in the redemption. If the board of directors makes this election, the Interactive Group will receive (or be attributed) a number of shares of the Qualifying Subsidiary owned by us based upon the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest at the record date of the redemption compared to the number of then-outstanding shares of Liberty Interactive common stock, and the remaining shares of the Qualifying Subsidiary owned by us will be distributed in the redemption of outstanding shares of Liberty Interactive common stock. In addition, if the board of directors makes this election, New Liberty may distribute the shares of the Qualifying Subsidiary received by or attributed to the Capital Group to the holders of Liberty Capital common stock. New Liberty also will reduce the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest as if the applicable portion of the notional shares reflecting such inter-group interest had been redeemed.

In effecting such a redemption the board of directors may either:

redeem shares of each series of Liberty Interactive common stock in exchange for shares of a single class or series of common stock of the Qualifying Subsidiary without distinction among the shares distributed to the holders of each series of Liberty Interactive common stock;

redeem shares of each series of Liberty Interactive common stock in exchange for shares of separate classes or series of common stock of the Qualifying Subsidiary, on an equal per share basis; or

redeem shares of one or more series of Liberty Interactive common stock in exchange for shares of a separate class or series of common stock of the Qualifying Subsidiary and, on an equal per share basis, redeem shares of all other series of Liberty Interactive common stock in exchange for shares of a different class or series of common stock of the Qualifying Subsidiary.

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Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group

Capital Group Dispositions. If there is a Capital Group Disposition (as defined below) other than an Exempt Capital Group Disposition (as defined below), and subject to the discussion under "Effect of Inter-Group Interest in Capital Group," New Liberty would be required, on or prior to the 85th trading day after the consummation of such Capital Group Disposition (or, if New Liberty's board of directors seeks the approval of holders of Liberty Capital common stock to classify such disposition as an Exempt Capital Group Disposition and such approval is not obtained, the 85th trading day following the day on which the vote was taken), to take one of the following four alternative actions:

subject to the restrictions on the payment of dividends described above under "Dividends", declare and pay a dividend to holders of Liberty Capital common stock in any combination of cash, securities or other assets (other than shares of New Liberty common stock), with a fair value equal to the Capital Group Allocable Net Proceeds (as defined below) of such Capital Group Disposition as of the record date for determining the holders entitled to receive such dividend;

provided that there are assets of New Liberty legally available, and the Capital Group Available Dividend Amount would have been sufficient to pay a dividend as detailed above, then:

if such Capital Group Disposition involves all (not merely substantially all) of the assets of the Capital Group, redeem all outstanding shares of Liberty Capital common stock in exchange for cash, securities or other assets (other than shares of our common stock) with a fair value equal to the Capital Group Allocable Net Proceeds of such Capital Group Disposition, to be allocated among all outstanding shares of the Capital Group as of the redemption date; or

if such Capital Group Disposition involves substantially all (but not all) of the properties and assets of the Capital Group, redeem a number of outstanding shares of Liberty Capital common stock with a fair value equal to the Capital Group Allocable Net Proceeds of such Capital Group Disposition in exchange for cash, securities or other property (other than shares of our common stock) with a fair value equal to such Capital Group Allocable Net Proceeds, being allocated to the shares of Liberty Capital common stock to be redeemed on a pro rata basis; or

convert each outstanding share of Liberty Capital Series A common stock into a number (or fraction) of shares of Liberty Interactive Series A common stock, each outstanding share of Liberty Capital Series B common stock into a number (or fraction) of shares of Liberty Interactive Series B common stock and each outstanding share of Liberty Capital Series C common stock into a number (or fraction) of shares of Liberty Interactive Series C common stock, in each case, equal to 110% of the average daily ratio (calculated to the nearest five decimal places) of (i) the average market value of one share of Liberty Capital Series A common stock (or another series of Liberty Capital common stock subject to certain limitations) over a specified 16-trading day period to (ii) the average market value of one share of Liberty Interactive Series A common stock (or another series of Liberty Interactive common stock subject to certain limitations) over the same period; or

combine the conversion of a portion of the outstanding shares of Liberty Capital common stock, as contemplated above, with payment of a dividend on, or the redemption of, shares of Liberty Capital common stock, subject to certain limitations; in such a case, we will convert the relevant shares at the rate discussed in the bullet point above, and either pay a dividend to holders of the remaining shares of Liberty Capital common stock or redeem all or a portion of the remaining shares of Liberty Capital common stock (in exchange for a pro rata share of the Capital Group Allocable Net Proceeds) in the manner described above.

"Capital Group Disposition" means the disposition, in one transaction or a series of related transactions, by New Liberty or its subsidiaries of all or substantially all of the assets of the Capital Group to one or more entities. As of any date, **"substantially all of the assets of the Capital Group"** means a portion of such assets that represent at least 80% of the then fair market value (as determined by the board of directors) of the assets of the Capital Group as of such date.

"Exempt Capital Group Disposition" means any of the following: (i) the disposition of all or substantially all of New Liberty's assets in one transaction or a series of related transactions in connection with New Liberty's liquidation, dissolution or winding up, (ii) a dividend, other distribution or redemption in accordance with the provisions of New Liberty's amended charter, (iii) a Capital Group Disposition to any person or entity that New Liberty, directly or indirectly, after giving effect to the disposition, control, (iv) a Capital Group Disposition in connection with a Capital Group Related Business Transaction, or (v) a Capital Group Disposition as to which the board seeks and obtains the approval of the holders of Liberty Capital Series A common stock and holders of Liberty Capital Series B common stock, voting together as a separate class, to classify such Capital Group Disposition as an Exempt Capital Group Disposition by a majority of votes cast by the holders of that stock entitled to vote thereon and present in person or by proxy at the meeting at which such vote is taken.

"Capital Group Related Business Transaction" means any disposition of all or substantially all of the assets of the Capital Group in which New Liberty receives as proceeds primarily equity securities of the purchaser of those assets, any entity which succeeds to those assets or a third party issuer, if a significant portion of the business or businesses in which the purchaser, successor or third party issuer is engaged or proposes to engage consists of one or more businesses similar or complementary to the businesses conducted by the Capital Group prior to such disposition, as determined in good faith by New Liberty's board of directors.

"Capital Group Net Proceeds" means generally, as of any date, with respect to any Capital Group Disposition, an amount, if any, equal to what remains of the gross proceeds of such disposition to New Liberty after any payment of, or reasonable provision for, taxes, transaction costs (including, without limitation, any legal, investment banking and accounting fees and expenses) and any liabilities and other obligations (contingent or otherwise) incurred in connection with the disposition. To the extent the proceeds of any Capital Group Disposition include any securities or other assets other than cash, New Liberty's board of directors will determine the value of such securities or assets, including for the purpose of determining the equivalent value thereof if New Liberty's board of directors determines to pay a dividend or redemption price in cash, securities or other assets.

"Capital Group Allocable Net Proceeds" means, as of any date, with respect to any Capital Group Disposition, the Capital Group Net Proceeds of such Capital Group Disposition, unless at the time of such Capital Group Disposition the Interactive Group has an inter-group interest in the Capital Group, in which case, Capital Group Allocable Net Proceeds means the Capital Group Net Proceeds as the same will be proportionately reduced to reflect the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest compared to the number of then-outstanding shares of Liberty Capital common stock.

New Liberty may elect to pay the dividend or redemption price referred to above either in the same form as the proceeds of the disposition were received or in any other combination of cash, securities or other assets that New Liberty's board of directors determines will have an aggregate fair value on a fully distributed basis, of not less than the amount allocated to such dividend or redemption.

If the redemption price is paid in the form of securities of an issuer other than New Liberty, New Liberty's board of directors may determine to pay the redemption price in the form of (i) identical securities, on an equal per share basis, to holders of each series of Liberty Capital common stock,

(ii) separate classes or series of securities, on an equal per share basis, to the holders of each series of Liberty Capital common stock, subject to certain limitations, and (iii) a separate class or series to holders of one or more series of Liberty Capital common stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of Liberty Capital common stock, subject to certain limitations.

The exceptions to the foregoing requirements, among other things, would enable New Liberty to enter into transactions in which the properties or assets of the Capital Group may be considered to be "disposed of" in exchange for equity securities of an entity engaged or proposing to engage in similar or complementary business areas to those of the Capital Group "disposed of" while maintaining the capital structure and delineation of business groups contemplated by the restructuring proposals.

The option to convert the Liberty Capital common stock into Liberty Interactive common stock in the event of a Capital Group Disposition provides New Liberty with additional flexibility by allowing New Liberty to deliver consideration in the form of shares of Liberty Interactive common stock rather than cash, securities or other properties. This alternative could be used, for example, in circumstances when New Liberty did not have sufficient legally available assets under Delaware law to pay the full amount of an otherwise required dividend or redemption or when New Liberty desired to retain such proceeds.

If New Liberty does not have the legal capacity under Delaware law or its amended charter to pay a dividend or redeem shares with the full amount of the Capital Group Allocable Net Proceeds, New Liberty's board of directors has the right to pay out as much as New Liberty is able to pay and deposit the balance in an escrow or other account for further application as soon as New Liberty is able to do so under Delaware law and its amended charter.

Effect of Inter-Group Interest in Capital Group. If at the time of a Capital Group Disposition, the Interactive Group holds an inter-group interest in the Capital Group and a dividend or distribution is effected as a result of the Capital Group Disposition, the board of directors will cause the Interactive Group to participate (or be deemed to participate) in the dividend or distribution, in the manner described under "Dividends Inter-Group Dividend Amounts" above.

If at the time of a Capital Group Disposition, the Interactive Group holds an inter-group interest in the Capital Group and a redemption of Liberty Capital common stock is effected as a result of the Capital Group Disposition, the board of directors may cause the Interactive Group to participate in the redemption, in which case the Interactive Group will receive (or be attributed), concurrently with the redemption of outstanding shares of Liberty Capital common stock, a portion of the Capital Group Net Proceeds based upon the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest at the record date for the redemption of outstanding shares of Liberty Capital common stock compared to the number of then-outstanding shares of Liberty Capital common stock. If the board of directors makes this election, New Liberty may distribute the redemption consideration received by the Interactive Group to the holders of Liberty Interactive common stock. New Liberty also will reduce the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest as if the applicable portion of the notional shares reflecting such inter-group interest had been redeemed.

Interactive Group Dispositions. If there is an Interactive Group Disposition (as defined below) other than an Exempt Interactive Group Disposition (as defined below), and subject to the discussion under "Effect of Inter-Group Interest in Interactive Group," New Liberty would be required, on or prior to the 85th trading day after the consummation of such Interactive Group Disposition (or, if New Liberty's board of directors seeks the approval of holders of Liberty Interactive common stock to classify such disposition as an Exempt Interactive Group Disposition and such approval is not obtained,

the 85th trading day following the day on which the vote was taken), to take one of the following four alternative actions:

subject to the restrictions on the payment of dividends described above under " Dividends", declare and pay a dividend to holders of Liberty Interactive common stock in any combination of cash, securities or other assets (other than shares of New Liberty's common stock), with a fair value equal to the Interactive Group Allocable Net Proceeds (as defined below) of such Interactive Group Disposition as of the record date for determining the holders entitled to receive such dividend;

provided that there are assets of New Liberty legally available, and the Interactive Group Available Dividend Amount would have been sufficient to pay a dividend as detailed above, then:

if such Interactive Group Disposition involves all (not merely substantially all) of the assets of the Interactive Group, redeem all outstanding shares of Liberty Interactive common stock in exchange for cash, securities or other assets (other than shares of our common stock) with a fair value equal to the Interactive Group Allocable Net Proceeds of such Interactive Group Disposition, to be allocated among all outstanding shares of the Interactive Group as of the redemption date; or

if such Interactive Group Disposition involves substantially all (but not all) of the properties and assets of the Interactive Group, redeem a number of outstanding shares of Liberty Interactive common stock with a fair value equal to the Interactive Group Allocable Net Proceeds of such Interactive Group Disposition in exchange for cash, securities or other property (other than shares of our common stock) with a fair value equal to such Interactive Group Allocable Net Proceeds to be redeemed on a pro rata basis, being allocated to the shares of Liberty Interactive common stock; or

convert each outstanding share of Liberty Interactive Series A common stock into a number (or fraction) of shares of Liberty Capital Series A common stock, each outstanding share of Liberty Interactive Series B common stock into a number (or fraction) of shares of Liberty Capital Series B common stock and each outstanding share of Liberty Interactive Series C common stock into a number (or fraction) of shares of Liberty Capital Series C common stock, in each case, equal to 110% of the average daily ratio (calculated to the nearest five decimal places) of (i) the average market value of one share of Liberty Interactive Series A common stock (or another series of Liberty Interactive common stock subject to certain limitations) over a specified 16-trading day period to (ii) the average market value of one share of Liberty Capital Series A common stock (or another series of Liberty Capital common stock subject to certain limitations) over the same period; or

combine the conversion of a portion of the outstanding shares of Liberty Interactive common stock, as contemplated above, with payment of a dividend on, or the redemption of, shares of Liberty Interactive common stock, subject to certain limitations; in such a case, we will convert the relevant shares at the rate discussed in the bullet point above, and either pay a dividend to holders of the remaining shares of Liberty Interactive common stock or redeem all or a portion of the remaining shares of Liberty Interactive common stock (in exchange for a pro rata share of the Interactive Group Allocable Net Proceeds) in the manner described above.

"Interactive Group Disposition" means the disposition, in one transaction or a series of related transactions, by New Liberty or its subsidiaries of all or substantially all of the assets of the Interactive Group to one or more entities. As of any date, **"substantially all of the assets of the Interactive Group"** means a portion of such assets that represent at least 80% of the then fair

market value (as determined by the board of directors) of the assets of the Interactive Group as of such date.

"Exempt Interactive Group Disposition" means any of the following: (i) the disposition of all or substantially all of New Liberty's assets in one transaction or a series of related transactions in connection with New Liberty's liquidation, dissolution or winding up, (ii) a dividend, other distribution or redemption in accordance with the provisions of New Liberty's amended charter, (iii) an Interactive Group Disposition to any person or entity that New Liberty, directly or indirectly, after giving effect to the disposition, controls, (iv) an Interactive Group Disposition in connection with an Interactive Group Related Business Transaction, or (v) an Interactive Group Disposition as to which the board seeks and obtains the approval of the holders of Liberty Interactive Series A common stock and holders of Liberty Interactive Series B common stock, voting together as a separate class, to classify such Interactive Group Disposition as an Exempt Interactive Group Disposition by a majority of votes cast by the holders of that stock entitled to vote thereon and present in person or by proxy at the meeting at which such vote is taken.

"Interactive Group Related Business Transaction" means any disposition of all or substantially all of the assets of the Interactive Group in which New Liberty receives as proceeds primarily equity securities of the purchaser of those assets, any entity which succeeds to those assets or a third party issuer, if a significant portion of the business or businesses in which the purchaser, successor or third party issuer is engaged or proposes to engage consists of one or more businesses similar or complementary to the businesses conducted by the Interactive Group prior to such disposition, as determined in good faith by New Liberty's board of directors.

"Interactive Group Net Proceeds" means generally, as of any date, with respect to any Interactive Group Disposition, an amount, if any, equal to what remains of the gross proceeds of such disposition to New Liberty after any payment of, or reasonable provision for, taxes, transaction costs (including, without limitation, any legal, investment banking and accounting fees and expenses) and any liabilities and other obligations (contingent or otherwise) incurred in connection with the disposition. To the extent the proceeds of any Interactive Group Disposition include any securities or other assets other than cash, New Liberty's board of directors will determine the value of such securities or assets, including for the purpose of determining the equivalent value thereof if New Liberty's board of directors determines to pay a dividend or redemption price in cash, securities or other assets.

"Interactive Group Allocable Net Proceeds" means, as of any date, with respect to any Interactive Group Disposition, the Interactive Group Net Proceeds of such Interactive Group Disposition, unless at the time of such Interactive Group Disposition, Capital Group has an inter-group interest in the Interactive Group in which case, Interactive Group Allocable Net Proceeds means the Interactive Group Net Proceeds as the same will be proportionately reduced to reflect the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest compared to the number of then-outstanding shares of Liberty Interactive common stock.

New Liberty may elect to pay the dividend or redemption price referred to above either in the same form as the proceeds of the disposition were received or in any other combination of cash, securities or other assets that New Liberty's board of directors determines will have an aggregate fair value on a fully distributed basis, of not less than the amount allocated to such dividend or redemption.

If the redemption price is paid in the form of securities of an issuer other than New Liberty, New Liberty's board of directors may determine to pay the redemption price in the form of (i) identical securities, on an equal per share basis, to holders of each series of Liberty Interactive common stock, (ii) separate classes or series of securities, on an equal per share basis, to the holders of each series of Liberty Interactive common stock, subject to certain limitations, and (iii) a separate class or series to holders of one or more series of Liberty Interactive common stock and, on an equal per share basis, a

different class or series of securities to the holders of all other series of Liberty Interactive common stock, subject to certain limitations.

The exceptions to the foregoing requirements, among other things, would enable New Liberty to enter into transactions in which the properties or assets of the Interactive Group may be considered to be "disposed of" in exchange for equity securities of an entity engaged or proposing to engage in similar or complementary business areas to those of the Interactive Group "disposed of" while maintaining the capital structure and delineation of business groups contemplated by the restructuring proposals.

The option to convert the Liberty Interactive common stock into Liberty Capital common stock in the event of an Interactive Group Disposition provides New Liberty with additional flexibility by allowing New Liberty to deliver consideration in the form of shares of Liberty Capital common stock rather than cash, securities or other properties. This alternative could be used, for example, in circumstances when New Liberty did not have sufficient legally available assets under Delaware law to pay the full amount of an otherwise required dividend or redemption or when New Liberty desired to retain such proceeds.

If New Liberty does not have the legal capacity under Delaware law or New Liberty's amended charter to pay a dividend or redeem shares with the full amount of the Interactive Group Allocable Net Proceeds, New Liberty's board of directors has the right to pay out as much as New Liberty is able to pay and deposit the balance in an escrow or other account for further application as soon as New Liberty is able to do so under Delaware law and New Liberty's amended charter.

Effect of Inter-Group Interest in Interactive Group. If at the time of an Interactive Group Disposition, the Capital Group holds an inter-group interest in the Interactive Group and a dividend or distribution is effected as a result of the Interactive Group Disposition, the board of directors will cause the Capital Group to participate in the dividend or distribution, in the manner described under " Dividends Inter-Group Dividend Amounts" above.

If at the time of an Interactive Group Disposition, the Capital Group holds an inter-group interest in the Interactive Group and a redemption of Liberty Interactive common stock is effected as a result of the Interactive Group Disposition, the board of directors may cause the Capital Group to participate in the redemption, in which case the Capital Group will receive (or be attributed), concurrently with the redemption of outstanding shares of Liberty Interactive common stock, a portion of the Interactive Group Net Proceeds based upon the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest at the record date for the redemption of outstanding shares of Liberty Interactive common stock compared to the number of then-outstanding shares of Liberty Interactive common stock. If the board of directors makes this election, New Liberty may distribute the redemption consideration received by the Capital Group to the holders of Liberty Capital common stock. New Liberty also will reduce the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest as if the applicable portion of the notional shares reflecting such inter-group interest had been redeemed.

General Dividend, Redemption and Conversion Provisions

Public Announcements. New Liberty is required to provide certain notices to holders of Liberty Capital common stock and holders of Liberty Interactive common stock in connection with the dividend, redemption and conversion provisions of New Liberty's amended charter. All public announcements required by New Liberty's amended charter will include such further statements, and New Liberty reserves the right to make such further public announcements, as may be required by law or the rules of the principal national securities exchange on which the applicable series of its common stock is listed or as New Liberty's board of directors may, in its discretion, deem appropriate. Any

notice sent to a registered holder of any series of New Liberty's common stock will be sent by first-class mail, postage prepaid to such holder's address as the same appears on New Liberty's transfer books.

Neither the failure to mail any required notice to any particular holder of any series of New Liberty's common stock nor any defect therein will affect the sufficiency thereof with respect to any other holder of outstanding shares of any series of New Liberty's common stock, or the validity of any action taken pursuant to New Liberty's amended charter.

No Adjustments. No adjustments in respect of dividends will be made upon the conversion or redemption of any shares of any series of New Liberty's common stock, provided that, except as explicitly otherwise contemplated by New Liberty's amended charter, if the conversion date or the redemption date with respect to any shares of our common stock will be subsequent to the record date for the payment of a dividend or other distribution thereon or with respect thereto, but prior to the payment of such dividend or distribution, the holders of record of such shares of New Liberty's common stock at the close of business on such record date will be entitled to receive the dividend or other distribution payable on or with respect to such shares on the date set for payment of such dividend or other distribution, notwithstanding the prior conversion or redemption of such shares.

Surrender of Shares. Before any holder of shares of New Liberty's common stock becomes entitled to receive certificates representing shares of any kind of capital stock or cash, securities (other than capital stock) or other assets to be received by such holder with respect to such shares upon any conversion of such shares at New Liberty's option or in connection with a mandatory dividend, redemption or conversion in case of a Capital Group Disposition or an Interactive Group Disposition, as applicable, such holder will surrender, at a place to be specified by New Liberty, such shares, properly endorsed or assigned for transfer (unless New Liberty waives such requirement). New Liberty will as soon as practicable after such surrender of certificates representing such shares, deliver, or cause to be delivered, at the office of the transfer agent for the shares or other securities to be delivered, to the holder for whose account such shares were so surrendered, or to the nominee or nominees of such holder, certificates representing the number of whole shares of the kind of capital stock or cash, securities (other than capital stock) or other assets to which such person will be entitled, together with any payment for fractional securities. If less than all of the shares represented by any one certificate are to be redeemed or converted, New Liberty will issue and deliver a new certificate for the shares represented thereby and not redeemed or converted. New Liberty will not be required to register a transfer of (i) any shares of New Liberty's common stock for the period preceding any selection of shares to be redeemed or converted set forth in the applicable public announcement or notice or (ii) any shares of New Liberty's common stock selected for redemption or conversion. Shares selected for redemption may not thereafter be converted at the option of the holder.

From and after any applicable conversion date or redemption date, all rights of a holder of shares of New Liberty common stock that were converted or redeemed on such conversion date or redemption date, as applicable, will cease except for the right, upon surrender of the certificates representing such shares, to receive certificates representing shares of the kind and amount of capital stock or cash, securities (other than capital stock) or other assets for which such shares were converted or redeemed, as applicable, together with any payment for fractional securities and such holder will have no other or further rights in respect of the shares of New Liberty common stock so converted or redeemed, including, but not limited to, any rights with respect to any cash, securities or other assets which are reserved or otherwise designated by New Liberty as being held for the satisfaction of its obligations to pay or deliver any cash, securities or other assets upon the conversion, exercise or exchange of any convertible securities outstanding as of the date of such conversion or redemption. No holder of a certificate that immediately prior to the applicable conversion date or redemption date represented shares of New Liberty common stock will be entitled to receive any dividend or other distribution with respect to shares of any kind of capital stock into or in exchange for which such shares of New Liberty common stock were converted or redeemed until surrender of such holder's

certificate for a certificate representing shares of such kind of capital stock. Upon such surrender, there will be paid to the holder the amount of any dividends or other distributions (without interest) which theretofore became payable with respect to a record date after the conversion date or redemption date, as the case may be, but that were not paid by reason of the foregoing, with respect to the number of whole shares of the kind of capital stock represented by the certificate or certificates issued upon such surrender. From and after a conversion date or redemption date, as the case may be, New Liberty will, however, be entitled to treat certificates representing shares of New Liberty common stock that have not yet been surrendered for such conversion or redemption as evidencing the ownership of the number of whole shares of the kind or kinds of capital stock for which the shares of New Liberty common stock represented by such certificates will have been converted or redeemed at our option or in connection with the holding by a Qualifying Subsidiary of assets and liabilities of either group or a Capital Group Disposition or an Interactive Group Disposition, notwithstanding the failure of the holder thereof to surrender such certificates.

No Fractional Shares. New Liberty will not be required to issue or deliver fractional shares of any class or series of capital stock or any other securities in a smaller than authorized denomination to any holder of our common stock upon any conversion, redemption, dividend or other distribution. In connection with the determination of the number of shares of any class or series of capital stock that will be issuable or the amount of securities that will be deliverable to any holder of record of New Liberty common stock upon any such conversion, redemption, dividend or other distribution (including any fractions of shares or securities), New Liberty may aggregate the shares of New Liberty common stock held at the relevant time by such holder of record. If the aggregate number of shares of capital stock or other securities to be issued or delivered to any holder of New Liberty common stock includes a fraction of the minimum authorized denomination, New Liberty will pay a cash adjustment in respect of such fraction in an amount equal to the value of such fraction as of the trading day specified by New Liberty's board of directors for such purpose (without interest). For purposes of the preceding sentence, "such value" of any fraction will equal the product of such fraction and the fair value of one such share or the minimum authorized denomination of such other security as of such specified trading day.

Liquidation and Dissolution

In the event of the liquidation, dissolution or winding up, whether voluntary or involuntary, of New Liberty, after payment or provision for payment of New Liberty's debts and liabilities and subject to the prior payment in full of the preferential amounts to which any series of preferred stock is entitled, the holders of shares of Liberty Capital common stock and the holders of shares of Liberty Interactive common stock will be entitled to receive in respect of shares of Liberty Capital common stock and Liberty Interactive common stock their proportionate interests in New Liberty's assets remaining for distribution to holders of New Liberty common stock (regardless of the group to which such assets are then attributed) in proportion to the respective number of liquidation units per share of Liberty Capital common stock and Liberty Interactive common stock. Neither New Liberty's consolidation or merger with or into any other person nor the sale, transfer or lease of all or substantially all of our assets will itself be deemed to be a liquidation, dissolution or winding up.

The liquidation units per share of each series of common stock will be as follows:

each share of Liberty Capital common stock will have one liquidation unit; and

each share of Liberty Interactive common stock will have a number of liquidation units (including a fraction of one liquidation unit) equal to the quotient (rounded to the nearest five decimal places) of the daily volume weighted average prices of one share of Liberty Interactive Series A common stock over the first 20 trading days on which the Liberty Interactive Series A common stock trades in the regular way market, divided by the daily volume weighted average

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prices of one share of Liberty Capital Series A common stock over the first 20 trading days on which the Liberty Capital Series A common stock trades in the regular way market.

If New Liberty in any manner subdivides (by stock split, reclassification or otherwise) or combines (by reverse stock split, reclassification or otherwise) the outstanding shares of Liberty Capital common stock or Liberty Interactive common stock, or declares and pays a distribution in shares of Liberty Capital common stock or Liberty Interactive common stock, the per share liquidation units of the Liberty Capital common stock or Liberty Interactive common stock, as applicable, specified above, as adjusted from time to time, will be appropriately adjusted as determined by New Liberty's board of directors, so as to avoid any dilution in the aggregate, relative liquidation rights of the shares of Liberty Capital common stock and Liberty Interactive common stock.

Description of Other Provisions of New Liberty's Amended Charter

The following terms of New Liberty's amended charter are substantially similar to the corresponding terms found in Old Liberty's existing charter.

Preferred Stock

New Liberty's amended charter authorizes the board of directors to establish one or more series of preferred stock and to determine, with respect to any series of preferred stock, the terms and rights of the series, including:

the designation of the series;

the number of authorized shares of the series, which number New Liberty's board may increase or decrease but not below the number of such shares of such series of preferred stock then outstanding;

the dividend rate or amounts, if any, and, in the case of cumulative dividends, the date or dates from which dividends on all shares of the series will be cumulative and the relative preferences or rights of priority or participation with respect to such dividends;

the rights of the series in the event of New Liberty's voluntary or involuntary liquidation, dissolution or winding up and the relative preferences or rights of priority of payment;

the rights, if any, of holders of the series to convert into or exchange for other classes or series of stock or indebtedness and the terms and conditions of any such conversion or exchange, including provision for adjustments within the discretion of New Liberty's board of directors;

the voting rights, if any, of the holders of the series;

the terms and conditions, if any, for New Liberty to purchase or redeem the shares; and

any other relative rights, preferences and limitations of the series.

We believe that the ability of New Liberty's board of directors to issue one or more series of preferred stock will provide flexibility in structuring possible future financing and acquisitions and in meeting other corporate needs which might arise. The authorized shares of New Liberty's preferred stock will be available for issuance without further action by New Liberty's stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which New Liberty's securities may be listed or traded. If the approval of New Liberty's stockholders is not required for the issuance of shares of New Liberty's preferred stock or New Liberty's common stock, New Liberty's board may determine not to seek stockholder approval.

Although New Liberty has no intention at the present time of doing so, New Liberty could issue a series of preferred stock that could, depending on the terms of such series, impede the completion of a

merger, tender offer or other takeover attempt. New Liberty's board will make any determination to issue such shares based upon its judgment as to the best interests of its stockholders. New Liberty's board of directors, in so acting, could issue preferred stock having terms that could discourage an acquisition attempt through which an acquirer may be able to change the composition of New Liberty's board of directors, including a tender offer or other transaction that some, or a majority, of New Liberty's stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then-current market price of the stock.

Board of Directors

New Liberty's amended charter provides that, subject to any rights of the holders of any series of New Liberty's preferred stock to elect additional directors, the number of New Liberty's directors will not be less than three and the exact number will be fixed from time to time by a resolution of New Liberty's board. The members of New Liberty's board, other than those who may be elected by holders of New Liberty's preferred stock, are divided into three classes. Each class consists, as nearly as possible, of a number of directors equal to one-third of the then authorized number of board members. The term of office of New Liberty's Class I directors expires at the annual meeting of New Liberty's stockholders in 2008. The term of office of New Liberty's Class II directors expires at the annual meeting of New Liberty's stockholders in 2006. The term of office of New Liberty's Class III directors expires at the annual meeting of New Liberty's stockholders in 2007. At each annual meeting of New Liberty's stockholders, the successors of that class of directors whose term expires at that meeting will be elected to hold office for a term expiring at the annual meeting of New Liberty's stockholders held in the third year following the year of their election. The directors of each class will hold office until their respective successors are elected and qualified.

New Liberty's amended charter provides that, subject to the rights of the holders of any series of New Liberty's preferred stock, New Liberty's directors may be removed from office only for cause upon the affirmative vote of the holders of at least a majority of the aggregate voting power of New Liberty's outstanding capital stock entitled to vote at an election of directors, voting together as a single class.

New Liberty's amended charter provides that, subject to the rights of the holders of any series of New Liberty's preferred stock, vacancies on New Liberty's board resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on New Liberty's board, will be filled only by the affirmative vote of a majority of the remaining directors then in office (even though less than a quorum) or by the sole remaining director. Any director so elected will hold office for the remainder of the full term of the class of directors in which the vacancy occurred or to which the new directorship is assigned, and until that director's successor will have been elected and qualified or until such director's earlier death, resignation or removal. No decrease in the number of directors constituting New Liberty's board will shorten the term of any incumbent director, except as may be provided in any certificate of designation with respect to a series of New Liberty's preferred stock with respect to any additional director elected by the holders of that series of New Liberty's preferred stock.

These provisions would preclude a third party from removing incumbent directors and simultaneously gaining control of New Liberty's board by filling the vacancies created by removal with its own nominees. Under the classified board provisions described above, it would take at least two elections of directors for any individual or group to gain control of New Liberty's board. Accordingly, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of New Liberty.

Limitation on Liability and Indemnification

To the fullest extent permitted by Delaware law, New Liberty's directors are not liable to New Liberty or any of its stockholders for monetary damages for breaches of fiduciary duties while serving as a director. In addition, New Liberty indemnifies and holds harmless, to the fullest extent permitted by applicable law, any person involved in any suit or action by reason of the fact that such person is a director or officer of New Liberty or, at New Liberty's request, a director, officer, employee or agent of another corporation or entity, against all liability, loss and expenses incurred by such person. New Liberty will pay expenses of a director or officer in defending any proceeding in advance of its final disposition, provided that such payment is made upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to indemnification.

No Shareowner Action by Written Consent; Special Meetings

New Liberty's amended charter provides that, except as otherwise provided in the terms of any series of preferred stock, no action required to be taken or which may be taken at any annual meeting or special meeting of stockholders may be taken without a meeting and may not be effected by any consent in writing by such holders. Except as otherwise required by law and subject to the rights of the holders of any series of New Liberty's preferred stock, special meetings of New Liberty's stockholders for any purpose or purposes may be called only by New Liberty's Secretary or at the request of at least 75% of the members of the New Liberty's board of directors then in office. No business other than that stated in the notice of special meeting will be transacted at any special meeting.

Amendments

New Liberty's amended charter provides that, subject to the rights of the holders of any series of its preferred stock, the affirmative vote of the holders of at least 66²/₃% of the aggregate voting power of its outstanding capital stock generally entitled to vote upon all matters submitted to its stockholders, voting together as a single class, is required to adopt, amend or repeal any provision of New Liberty's amended charter or the addition or insertion of other provisions in New Liberty's amended charter, provided that the foregoing voting requirement will not apply to any adoption, amendment, repeal, addition or insertion (1) as to which Delaware law does not require the consent of New Liberty's stockholders or (2) which has been approved by at least 75% of the members of New Liberty's board then in office. New Liberty's amended charter further provides that the affirmative vote of the holders of at least 66²/₃% of the aggregate voting power of its outstanding capital stock generally entitled to vote upon all matters submitted to its stockholders, voting together as a single class, is required to adopt, amend or repeal any provision of its bylaws, provided that the foregoing voting requirement will not apply to any adoption, amendment or repeal approved by the affirmative vote of not less than 75% of the members of New Liberty's board then in office.

Supermajority Voting Provisions

In addition to the supermajority voting provisions discussed under " Amendments" above, New Liberty's amended charter provides that, subject to the rights of the holders of any series of its preferred stock, the affirmative vote of the holders of at least 66²/₃% of the aggregate voting power of its outstanding capital stock generally entitled to vote upon all matters submitted to New Liberty's stockholders, voting together as a single class, is required for:

New Liberty's merger or consolidation with or into any other corporation, provided, that the foregoing voting provision will not apply to any such merger or consolidation (1) as to which the laws of the State of Delaware, as then in effect, do not require the consent of New Liberty's

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stockholders, or (2) that at least 75% of the members of New Liberty's board of directors then in office have approved;

the sale, lease or exchange of all, or substantially all, of New Liberty's assets, provided, that the foregoing voting provisions will not apply to any such sale, lease or exchange that at least 75% of the members of New Liberty's board of directors then in office have approved; or

New Liberty's dissolution, provided, that the foregoing voting provision will not apply to such dissolution if at least 75% of the members of New Liberty's board of directors then in office have approved such dissolution.

Section 203 of the DGCL

Section 203 of the Delaware General Corporation Law prohibits certain transactions between a Delaware corporation and an "interested stockholder." An "interested stockholder" for this purpose is a stockholder who is directly or indirectly a beneficial owner of 15% or more of the aggregate voting power of a Delaware corporation. This provision prohibits certain business combinations between an interested stockholder and a corporation for a period of three years after the date on which the stockholder became an interested stockholder, unless: (1) the transaction which resulted in the stockholder becoming an interested stockholder is approved by the corporation's board of directors before the stockholder became an interested stockholder, (2) the interested stockholder acquired at least 85% of the aggregate voting power of the corporation in the transaction in which the stockholder became an interested stockholder, or (3) the business combination is approved by a majority of the board of directors and the affirmative vote of the holders of two-thirds of the aggregate voting power not owned by the interested stockholder at or subsequent to the time that the stockholder became an interested stockholder. These restrictions do not apply if, among other things, the corporation's certificate of incorporation contains a provision expressly electing not to be governed by Section 203. Neither Old Liberty's existing charter nor New Liberty's amended charter contains such an election.

Material U.S. Federal Income Tax Consequences

The following discussion is a summary of the material U.S. federal income tax consequences to you of the receipt of Liberty Interactive common stock and Liberty Capital common stock in exchange for your shares of Old Liberty common stock in the restructuring, and is the opinion of Baker Botts L.L.P., insofar as it relates to matters of U.S. federal income tax law and legal conclusions with respect to those matters. This opinion is included as an exhibit to the registration statement of which this proxy statement/prospectus forms a part. The opinion of Baker Botts L.L.P. is conditioned upon the accuracy of the statements, representations, covenants, and assumptions upon which the opinion is based and is subject to the conditions, limitations, and qualifications referenced below and in the opinion. This discussion assumes that the opinion of Baker Botts L.L.P. described below under " Tax Implications of the Restructuring" will be delivered to Old Liberty and New Liberty on the closing date of the merger and that the statements, representations, covenants, and assumptions upon which such opinion is based will be accurate. Any inaccuracy in any of the statements, representations, or assumptions or breach of any of the covenants upon which either of the opinions of Baker Botts L.L.P. are based could adversely affect their opinions and alter the conclusions described below in this discussion.

For purposes of this discussion, references to the term "restructuring" shall refer solely to the merger, including the exchange of Old Liberty common stock for Liberty Interactive common stock and Liberty Capital common stock which is effected thereby, and the conversion of Old Liberty into a Delaware limited liability company that is wholly-owned by New Liberty (the "Conversion").

This discussion is based upon the Internal Revenue Code of 1986, as amended (referred to as the "**Code**"), Treasury regulations promulgated thereunder (the "**Treasury Regulations**"), administrative pronouncements and judicial decisions as of the date of this proxy statement/prospectus, all of which

are subject to change or differing interpretations at any time, possibly with retroactive effect. In particular, Congress could enact legislation affecting the treatment of stock with characteristics similar to the Liberty Interactive common stock and the Liberty Capital common stock, or the Treasury Department could change the current law in future regulations, including regulations issued pursuant to its authority under Section 337(d) of the Code (granting the Treasury regulatory authority with respect to the proper tax treatment of corporate distributions of appreciated property to stockholders). Any future legislation, regulations, or other guidance could be enacted or promulgated so as to apply retroactively to the restructuring and the creation of the Liberty Interactive common stock and the Liberty Capital common stock. Any such changes could affect the continuing validity of this discussion.

This discussion addresses only those of you who hold your shares of Old Liberty common stock, and will, after the restructuring, hold your shares of Liberty Interactive common stock and Liberty Capital common stock, as capital assets within the meaning of Section 1221 of the Code. We have included this discussion for general information only. This discussion is limited to the U.S. federal income tax consequences of the restructuring and does not purport to be a complete technical analysis or listing of all potential tax consequences that may be relevant to you in light of your particular tax circumstances. Further, this discussion does not address holders of Old Liberty common stock who are subject to special treatment under U.S. federal income tax laws, such as:

tax-exempt organizations;

S corporations and other pass-through entities and owners thereof;

entities taxable as a partnership for U.S. federal income tax purposes and owners thereof;

insurance companies and other financial institutions;

mutual funds;

dealers in stocks and securities;

traders or investors in our common stock who elect the mark-to-market method of accounting for such stock;

stockholders who received our common stock from the exercise of employee stock options or otherwise as compensation;

stockholders who hold our common stock in a tax-qualified retirement plan, individual retirement account or other qualified savings account;

stockholders who hold their shares of our common stock as part of a hedge, straddle, or a constructive sale or conversion transaction or other risk reduction or integrated investment transaction; and

individuals who are not citizens or residents of the United States, foreign corporations and other foreign entities.

This discussion also does not address the effect of any state, local or foreign tax laws that may apply or the application of the U.S. federal estate and gift tax or the alternative minimum tax. In addition, this discussion does not address the U.S. federal income tax consequences of the restructuring to holders of options, warrants or other rights to acquire shares of our stock.

You should consult your own tax advisors regarding the application of the U.S. federal income tax laws to your particular situation, as well as the applicability of any U.S. federal estate and gift, state, local or foreign tax laws to which you may be subject.

Tax Implications of the Restructuring

It is a nonwaivable condition to the completion of the restructuring that Old Liberty and New Liberty receive the opinion of Baker Botts L.L.P., dated as of the closing date of the merger, to the effect that, under presently applicable U.S. federal income tax law:

the restructuring will be treated as a reorganization within the meaning of Section 368(a) of the Code;

the Liberty Interactive common stock and the Liberty Capital common stock issued in the restructuring will be treated as stock of New Liberty for U.S. federal income tax purposes;

except with respect to cash received instead of fractional shares, holders of Old Liberty common stock will not recognize income, gain or loss as a result of the conversion of their shares of Old Liberty common stock into shares of Liberty Interactive common stock and Liberty Capital common stock in the restructuring; and

the Liberty Interactive common stock and the Liberty Capital common stock issued in the restructuring will not constitute Section 306 stock within the meaning of Section 306(c) of the Code.

The opinion of Baker Botts L.L.P. will be conditioned upon the accuracy of the statements, representations, covenants, and assumptions upon which the opinion is based and will be subject to the conditions, limitations, and qualifications referenced in the opinion and in this discussion under the heading " Material U.S. Federal Income Tax Consequences." Any inaccuracy in any of the statements, representations, or assumptions or breach of any of the covenants upon which the opinion is based could adversely affect the conclusions reached in the opinion. Please see the discussion below under the heading " Except with Respect to the Debt Modification Issue, No IRS Ruling Will Be Requested" for a further discussion of the opinion.

Assuming that the opinion of Baker Botts L.L.P. is delivered to Old Liberty and New Liberty on the closing date of the merger, as described above, and that the treatment of the restructuring as described therein is respected, then:

your aggregate basis in your Liberty Interactive common stock, including any fractional shares deemed received, will equal a portion of your aggregate basis in your Old Liberty common stock surrendered in the restructuring based on the relative fair market value of the Liberty Interactive common stock as compared to the total consideration received by you pursuant to the restructuring;

your aggregate basis in your Liberty Capital common stock, including any fractional shares deemed received, will equal a portion of your aggregate basis in your Old Liberty common stock surrendered in the restructuring based on the relative fair market value of the Liberty Capital common stock as compared to the total consideration received by you pursuant to the restructuring;

the holding period of the Liberty Interactive common stock and the Liberty Capital common stock received by you in the restructuring will include the holding period of your Old Liberty common stock surrendered in exchange therefor;

except with respect to any income, gain or loss that may be recognized by Old Liberty if the restructuring results in a "significant modification," and therefore an exchange, of Old Liberty's outstanding publicly-traded debt for U.S. federal income tax purposes as described below under " Request for IRS Ruling Relating to the Debt Modification Issue," no gain or loss will be recognized by Old Liberty as a result of the restructuring; and

no gain or loss will be recognized by New Liberty on the issuance of the Liberty Interactive common stock and the Liberty Capital common stock in the restructuring.

Old Liberty stockholders that have acquired different blocks of Old Liberty common stock at different times or at different prices should consult their tax advisors regarding the allocation of their aggregate basis among, and their holding period of, shares of Liberty Interactive common stock and Liberty Capital common stock received in the restructuring.

If you receive cash instead of fractional shares of Liberty Interactive common stock or Liberty Capital common stock or both, you will be treated as having received such fractional shares in the restructuring and then as having sold such fractional shares for the cash received. This sale will generally result in the recognition of gain or loss for U.S. federal income tax purposes, measured by the difference between the amount of cash received for such fractional shares and your tax basis in such fractional shares (determined as described above), which gain or loss will be capital gain or loss.

You will be required to file with your U.S. federal income tax return for the taxable year in which the restructuring occurs a statement setting forth certain facts relating to the restructuring, including your tax basis in the shares of Old Liberty common stock exchanged in the restructuring and the number of shares of Liberty Interactive common stock and Liberty Capital common stock received by you in the restructuring. You must also keep a permanent record of facts relating to the conversion of your shares of Old Liberty common stock into shares of Liberty Interactive common stock and Liberty Capital common stock.

Except with Respect to the Debt Modification Issue, No IRS Ruling Will Be Requested

Except as described below under "Request for IRS Ruling Relating to the Debt Modification Issue," we have not sought any ruling from the IRS, and do not intend to seek any ruling, relating to the restructuring. The IRS has announced that it will not issue advance rulings on the characterization of instruments similar to the Liberty Interactive common stock and the Liberty Capital common stock that have certain voting and liquidation rights in an issuing corporation, but whose dividend rights are determined by reference to the earnings and profits of a segregated portion of the issuing corporation's assets.

Opinions of counsel are not equivalent to rulings from the IRS, and the conclusions expressed in the opinions of Baker Botts L.L.P. could be challenged by the IRS. In addition, there are no Code provisions, Treasury Regulations, court decisions or published rulings of the IRS bearing directly on the tax effects of the issuance and characterization of stock with characteristics similar to the Liberty Interactive common stock and the Liberty Capital common stock. Therefore, the tax treatment of the restructuring is subject to some uncertainty. In view of the absence of authorities directly on point or a private letter ruling from the IRS, there is a risk that the IRS could successfully assert that the issuance of the Liberty Interactive common stock or the Liberty Capital common stock or both in the restructuring in exchange for Old Liberty common stock could be taxable to you and/or to us.

If Liberty Interactive common stock or Liberty Capital common stock or both represent property other than stock of New Liberty ("**Other Property**"), the receipt of Liberty Interactive common stock or Liberty Capital common stock or both by you might be treated as a fully taxable dividend in an amount equal to the fair market value of such stock constituting Other Property (subject in the case of stockholders that are corporations, to any applicable dividends received deduction) or might be treated as a distribution in complete liquidation of our company, in which case you would recognize gain or loss with respect to your shares of Old Liberty common stock held immediately prior to the restructuring. Furthermore, we or our subsidiaries would recognize a significant taxable gain as a result of the restructuring in an amount equal to the excess of the fair market value of such stock constituting Other Property over its federal income tax basis to us or our subsidiaries allocable to such Other Property. Pursuant to the management and allocation policies, the cash for the payment of these taxes

would be drawn from funds attributed to the Capital Group. In addition, we may no longer be able to file a consolidated U.S. federal income tax return which includes eligible entities attributed to both the Interactive Group and the Capital Group. These tax liabilities, if they arise, would be likely to have a material adverse effect on us and each group.

Request for IRS Ruling Relating to the Debt Modification Issue

We have submitted a request for a private letter ruling from the IRS to the effect that the restructuring will not result in a "significant modification" of our outstanding publicly-traded debt for purposes of Section 1.1001-3 of the Treasury Regulations. However, the restructuring is not conditioned upon the receipt by us of the private letter ruling, and we could determine to proceed with the restructuring even though we have not obtained the requested ruling. Further, although any private letter ruling that is obtained would generally be binding on the IRS, the validity of such ruling will be subject to the accuracy of factual statements and representations made by us. If any of these statements or representations, or any assumptions made by the IRS in granting such ruling, were incorrect or untrue in any material respect, or the facts upon which any ruling is based are different from the facts at the effective time of either the merger or the Conversion, any ruling that is obtained could be invalidated.

There is some uncertainty as to whether the restructuring will result in a "significant modification" of our outstanding publicly-traded debt for U.S. federal income tax purposes, and no opinion has been obtained on this issue from Baker Botts L.L.P. If the restructuring was considered to result in a "significant modification" of our outstanding publicly-traded debt within the meaning of certain Treasury Regulations, it is expected that we would incur significant tax liabilities as a result of the deemed exchange of our outstanding publicly-traded debt for U.S. federal income tax purposes. These tax liabilities, if they were to arise, would be likely to have a material adverse effect on us and each group. Pursuant to the management and allocation policies, the cash for the payment of these taxes would be drawn from the group to which the underlying series of our outstanding publicly-traded debt is attributed. We expect that most of these tax liabilities, if they were to arise, would result from a deemed exchange of our exchangeable debentures, and accordingly, that most of these tax liabilities would be attributed to the Capital Group.

Information Reporting and Backup Withholding

In general, information reporting to the IRS and backup withholding may apply to your receipt of cash instead of fractional shares of Liberty Interactive common stock and Liberty Capital common stock. Backup withholding (currently 28%) may apply to "reportable payments" if you fail to provide a correct taxpayer identification number and certain other information, fail to provide a certification of exempt status or fail to report your full dividend and interest income. You are not subject to backup withholding if you (1) are a corporation or fall within certain other exempt categories and, when required, demonstrate that fact; or (2) provide a correct taxpayer identification number, certify under penalties of perjury that you are not subject to backup withholding, and otherwise comply with the applicable requirements of the backup withholding rules.

Backup withholding is not an additional tax; any amounts withheld under the backup withholding rules will be allowed as a refund or credit against your U.S. federal income tax liability provided the required information is furnished to the IRS. The information reporting requirements may apply regardless of whether backup withholding is required.

No Appraisal Rights

Under Delaware General Corporation Law, you will not have appraisal rights in connection with the restructuring.

Stock Exchange Listings

We have applied to list Liberty Interactive Series A common stock and Liberty Interactive Series B common stock on the Nasdaq National Market under the symbols "LINTA" and "LINTB," respectively. We have applied to list Liberty Capital Series A common stock and Liberty Capital Series B common stock on the Nasdaq National Market under the symbols "LCAPA" and "LCAPB," respectively.

Stock Transfer Agent and Registrar

Computershare Shareholder Services, Inc. will be the transfer agent and registrar for the Liberty Interactive common stock and the Liberty Capital common stock.

Accounting Treatment

The restructuring, if completed, would not cause any accounting related adjustments. On a prospective basis, New Liberty will disclose earnings per share information for each of the Interactive Group and the Capital Group based on the earnings attributable to each group and the weighted average shares (both outstanding and on a fully diluted basis) of each group.

THE ANNUAL BUSINESS MATTER PROPOSALS

Old Liberty's annual meeting of stockholders for 2006 is being held in conjunction with the consideration and vote on the restructuring proposals. If the restructuring proposals are approved at the annual meeting and implemented, the board of directors of Old Liberty will be reconstituted in a manner appropriate for a wholly-owned subsidiary. The board of directors of New Liberty immediately following the restructuring will be identical to the board of directors of Old Liberty immediately prior to the restructuring. Hence, those persons who are elected directors of Old Liberty at the annual meeting will, if the restructuring proposal is implemented, become directors of New Liberty with the same term of office as they would have had if the restructuring proposal had not been approved and implemented. Similarly, if KPMG LLP is ratified as the auditors of Old Liberty at the annual meeting, the audit committee of the board of directors of New Liberty will select KPMG LLP to be the auditors of New Liberty for its 2006 fiscal year.

Election of Directors Proposal

Board of Directors

Our board of directors currently consists of eight directors, divided among three classes. Our Class II directors, whose term will expire at the annual meeting, are Donne F. Fisher, Gregory B. Maffei and M. LaVoy Robison. These directors are nominated for re-election to our board to continue to serve as Class II directors, and we have been informed that each of Messrs. Fisher, Maffei and Robison are willing to continue to serve as directors of our company. The term of the Class II directors who are elected at the annual meeting will expire at the annual meeting of our stockholders in the year 2009. Our Class III directors, whose term will expire at the annual meeting of our stockholders in the year 2007, are Robert R. Bennett, Paul A. Gould and John C. Malone. Our Class I directors, whose term will expire at the annual meeting of our stockholders in the year 2008, are David E. Rapley and Larry E. Romrell.

If any nominee should decline re-election or should become unable to serve as a director of our company for any reason before re-election, votes will be cast for a substitute nominee, if any, designated by the board of directors, or, if none is so designated prior to the election, votes will be cast according to the judgment of the person or persons voting the proxy.

The following lists the three nominees for re-election as directors and the five directors of our company whose term of office will continue after the annual meeting, including the birth date of each person, the positions with our company or principal occupation of each person, certain other directorships held and the year each person became a director of our company. The number of shares of our common stock beneficially owned by each director, as of February 28, 2006, is set forth in this proxy statement/prospectus under the caption "Security Ownership of Certain Beneficial Owners and Management Security Ownership of Management."

Nominees for Election as Directors

Donne F. Fisher: Born May 24, 1938. A director of our company since October 2001. Mr. Fisher has served as President of Fisher Capital Partners, Ltd., a venture capital partnership, since December 1991.

Gregory B. Maffei: Born May 24, 1960. Chief Executive Officer and President of our company since February 2006 and a director of our company since November 2005. CEO-Elect of our company from November 2005 through February 2006. Mr. Maffei served as President and Chief Financial Officer of Oracle Corporation from June 2005 until November 2005. Mr. Maffei served as Chairman and Chief Executive Officer of 360networks from January 2000 until June 2005. Mr. Maffei serves as a director of Electronic Arts, Inc. and Starbucks Corporation.

M. LaVoy Robison. Born September 6, 1935. A director of our company since June 2003. Mr. Robison has been executive director and a board member of The Anschutz Foundation (a private foundation) since January 1998. Mr. Robison is a director of Discovery Holding Company (DHC).

Directors Whose Term Expires in 2007

Robert R. Bennett: Born April 19, 1958. A director of our company since September 1994. Chief Executive Officer of our company from April 1997 to August 2005. President of our company from April 1997 to February 2006. Previously, Mr. Bennett held various executive positions with our company since our inception in 1990. Mr. Bennett is also President of DHC. He is a director of DHC and OpenTV Corp.

Paul A. Gould: Born September 27, 1945. A director of our company since March 1999. Mr. Gould has been a Managing Director and Executive Vice President of Allen & Company Incorporated, an investment banking services company, for more than the last five years. Mr. Gould is a director of Ampco-Pittsburgh Corporation, Liberty Global, Inc. and DHC.

John C. Malone: Born March 7, 1941. Chairman of the Board and a director of our company since 1990. Chief Executive Officer of our company from August 2005 to February 2006. Mr. Malone served as Chairman of the Board of Tele-Communications, Inc. (TCI) from November 1996 to March 1999; and Chief Executive Officer of TCI from January 1994 to March 1999. Mr. Malone is Chairman of the Board of Liberty Global, Chairman and Chief Executive Officer of DHC and a director of The Bank of New York and Expedia.

Directors Whose Term Expires in 2008

David E. Rapley: Born June 22, 1941. A director of our company since July 2002, having previously served as a director of our company from June 1993 to September 1994. Mr. Rapley served as Executive Vice President Engineering of VECO Corp. Alaska from January 1998 to December 2001. Mr. Rapley is a director of Liberty Global and DHC.

Larry E. Romrell: Born December 30, 1939. A director of our company since March 1999. Mr. Romrell served as an Executive Vice President of TCI from January 1994 to March 1999. Mr. Romrell is a director of Liberty Global.

Vote and Recommendation

A plurality of the affirmative votes of the shares of our common stock outstanding on the record date, voting together as a single class, that are voted in person or by proxy at the annual meeting is required to elect Messrs. Fisher, Maffei and Robison as Class II members of our board of directors.

Our board of directors recommends a vote "FOR" the election of each nominee to our board of directors.

The Auditors Ratification Proposal

We are asking our stockholders to ratify the selection of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2006.

Even if the selection of KPMG LLP is ratified, the audit committee of our board in its discretion may direct the appointment of a different independent accounting firm at any time during the year if our audit committee determines that such a change would be in the best interests of our company and our stockholders. In the event our stockholders fail to ratify the selection of KPMG LLP, our audit committee will consider it as a direction to select other auditors for the year ending December 31, 2006.

A representative of KPMG LLP is expected to be present at the annual meeting, will have the opportunity to make a statement if he or she so desires and will be available to respond to appropriate questions.

Audit Fees and All Other Fees

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of our consolidated financial statements for 2005 and 2004, and fees billed for other services rendered by KPMG LLP:

	<u>2005</u>	<u>2004</u>
Audit fees	\$ 4,778,000	7,685,000
Audit related fees(1)	683,000	814,000
	<u>5,461,000</u>	<u>8,499,000</u>
Audit and audit related fees	5,461,000	8,499,000
Tax fees(2)	1,324,000	4,007,000
	<u>6,785,000</u>	<u>12,506,000</u>
Total fees	\$ 6,785,000	12,506,000

- (1) Audit related fees consist of professional consultations with respect to accounting issues affecting our financial statements, reviews of registration statements and issuance of consents, reviews of private placement offering documents, issuances of letters to underwriters, due diligence related to potential business combinations and audits of financial statements of certain employee benefits plans.
- (2) Tax fees consist of tax compliance and consultations regarding the tax implications of certain transactions.

Our audit committee has considered whether the provision of services by KPMG LLP to our company other than auditing is compatible with KPMG LLP maintaining its independence and does not believe that the provision of such other services is incompatible with KPMG LLP maintaining its independence.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

On March 24, 2003, our audit committee adopted a policy regarding the pre-approval of all audit and permissible non-audit services provided by our independent auditor. Pursuant to this policy, our audit committee has approved the engagement of our independent auditor to provide (a) audit services as specified in the policy, including financial audits of our company and our subsidiaries, services associated with our registration statements such as consents and comfort letters, and consultations with management as to accounting or reporting of transactions; (b) audit-related services as specified in the policy, including due diligence services, financial audits of employee benefit plans and assistance with implementation of the requirements of SEC rules or listing standards; and (c) tax services as specified in the policy, including federal, state, local and international tax planning, compliance and review services, and tax due diligence and advice regarding mergers and acquisitions (all of the foregoing, Pre-Approved Services). Notwithstanding the foregoing general pre-approval, any individual project involving the provision of Pre-Approved Services that is expected to result in fees in excess of \$100,000 requires the specific pre-approval of our audit committee. In addition, any engagement of our independent auditors for services other than the Pre-Approved Services requires the specific approval of our audit committee. Our audit committee has delegated the authority for the foregoing approvals to the chairman of the audit committee. Donne F. Fisher currently serves as the Chairman of our audit committee. At each audit committee meeting, the Chairman's approval of services provided by our independent auditors is subject to ratification by the entire audit committee.

Our pre-approval policy prohibits the engagement of our independent auditor to provide any services that are subject to the prohibition imposed by Section 201 of the Sarbanes-Oxley Act.

All services provided by our independent auditor during 2005 were approved in accordance with the terms of the policy.

Vote and Recommendation

The affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of our Series A common stock and Series B common stock outstanding on the record date for the annual meeting that are present, in person or by proxy, at the annual meeting, voting together as a single class, is required to ratify the selection of KPMG LLP as our independent auditors for the year ending December 31, 2006.

Our board of directors recommends a vote "FOR" the ratification of the selection of KPMG LLP as our independent auditors for the year ending December 31, 2006.

CONCERNING MANAGEMENT**Executive Officers**

The following lists the executive officers of our company (other than Gregory B. Maffei, our President and Chief Executive Officer, who also serves as a director and who is listed under "The Annual Business Matter Proposals The Election of Directors Proposal"), their birth dates and a description of their business experience, including positions held with our company.

Name	Positions
David J.A. Flowers Born May 17, 1954	A Senior Vice President of our company since October 2000 and Treasurer of our company since April 1997. Mr. Flowers served as a Vice President of our company from June 1995 to October 2000. Mr. Flowers is also a Senior Vice President and Treasurer of DHC.
Albert E. Rosenthaler Born August 29, 1959	A Senior Vice President of our company since April 2002. Prior to joining our company, Mr. Rosenthaler was a tax partner in the accounting firm of Arthur Andersen LLP for more than five years. Mr. Rosenthaler is also a Senior Vice President of DHC.
Christopher W. Shean Born July 16, 1965	A Senior Vice President of our company since January 2002 and Controller of our company since October 2000. Mr. Shean served as a Vice President of our company from October 2000 to January 2002. Mr. Shean is also a Senior Vice President and Controller of DHC.
Charles Y. Tanabe Born November 27, 1951	Secretary of our company since April 2001 and a Senior Vice President and General Counsel of our company since January 1999. Mr. Tanabe is also a Senior Vice President, Secretary and General Counsel of DHC.

The executive officers named above will serve in such capacities until the next annual meeting of our board of directors, or until their respective successors have been duly elected and have been qualified, or until their earlier death, resignation, disqualification or removal from office. There is no family relationship between any of our executive officers or directors, by blood, marriage or adoption.

During the past five years, none of the above persons has had any involvement in such legal proceedings as would be material to an evaluation of his ability or integrity.

Section 16(a) Beneficial Ownership Reporting and Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten-percent stockholders are required by SEC regulation to furnish us with copies of all Section 16 forms they file.

Based solely on a review of the copies of the Forms 3, 4 and 5 and amendments to those forms furnished to us during our most recent fiscal year, or written representations that no Forms 5 were required, we believe that, during the year ended December 31, 2005, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten-percent beneficial owners were complied with.

Code of Ethics

We have adopted a code of ethics that applies to all of our employees, directors and officers. It constitutes our "code of ethics" within the meaning of Section 406 of the Sarbanes-Oxley Act and our "code of business conduct and ethics" within the meaning of the New York Stock Exchange (NYSE) listing standards. Our code of ethics is available on our website at www.libertymedia.com. In addition, we will provide a copy of our code of ethics, free of charge, to any stockholder who calls or submits a request in writing to Investor Relations, Liberty Media Corporation, 12300 Liberty Boulevard, Englewood, Colorado 80112, telephone number (877) 772-1518.

Director Independence

It is our policy that a majority of the members of our board of directors be independent of our management. For a director to be deemed independent, our board of directors must affirmatively determine that the director has no direct or indirect material relationship with our company. To assist our board of directors in determining which of our directors qualify as independent for purposes of the NYSE listing standards as well as applicable rules and regulations adopted by the SEC, the nominating and corporate governance committee of our board of directors developed categorical standards of director independence, which we refer to as our criteria for director independence. Under these criteria, a director will be deemed independent if such director:

is not an employee or member of our management or the management of any of our subsidiaries;

has no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with us); for this purpose material relationships can, for example, include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships;

has no other relationship with us or our subsidiaries that would interfere with the exercise of independent judgment as a director; and

does not accept any consulting, advisory or other compensatory fee from us, except fees received for services as a director (including, without limitation, serving on a committee of our board of directors).

In addition, under these criteria, a director will not be deemed independent if such director:

is, or, during the three years preceding the determination date (which period of three years we refer to as the Applicable Determination Period), was, an employee or member of our management or of the management of any of our subsidiaries, or has an immediate family member who is or was during the Applicable Determination Period an executive officer of us or any of our subsidiaries;

is, or, during the Applicable Determination Period, was, an executive officer or an employee of a company that makes payments to or receives payments from us in an amount which in any single fiscal year exceeds, or exceeded, the greater of 2% or \$1 million of such other company's consolidated gross revenues, or has an immediate family member who is or was during the Applicable Determination Period an executive officer of such other company;

is receiving, or, during the Applicable Determination Period, received, or has an immediate family member who is receiving or received during such period, more than \$100,000 per year in direct compensation from us or any of our subsidiaries, other than director and committee fees and pension or other forms of deferred compensation for prior services (provided such compensation is not contingent in any way on continued service);

is, or, during the Applicable Determination Period, was, employed by or affiliated with any present or former internal or external auditor of us or any of our subsidiaries, or has an immediate family member who is or was during the Applicable Determination Period employed by or affiliated with any such present or former internal or external auditor; or

is, or, during the Applicable Determination Period, was, or has an immediate family member who is or was during the Applicable Determination Period, employed as an executive officer by a company as to which one of our executive officers serves, or, during such three-year period, served, as a director and member of the compensation committee of such other company.

In accordance with these criteria, our board of directors has determined that each of Donne F. Fisher, Paul A. Gould, David E. Rapley, M. LaVoy Robison and Larry E. Romrell qualifies as an independent director of our company.

Committees of the Board of Directors

Executive Committee

Our board of directors has established an executive committee, whose members are Paul A. Gould, Gregory B. Maffei and John C. Malone. Except as specifically prohibited by the General Corporation Law of the State of Delaware, the executive committee may exercise all the powers and authority of our board in the management of our business and affairs, including the power and authority to authorize the issuance of shares of our capital stock.

Compensation Committee

Our board of directors has established a compensation committee, whose chairman is Paul A. Gould and whose other members are Donne F. Fisher, David E. Rapley, M. LaVoy Robison and Larry E. Romrell. See " Director Independence" above.

The compensation committee reviews and approves corporate goals and objectives relevant to the compensation of our chief executive officer and our other executive officers. The compensation committee also reviews and approves the compensation of all officers of our company at the level of senior vice president or above, including our chief executive officer.

Our board of directors has adopted a written charter for the compensation committee, which is available on our website at www.libertymedia.com. We will provide a copy of this charter, free of charge, to any stockholder who calls or submits a request in writing to Investor Relations, Liberty Media Corporation, 12300 Liberty Boulevard, Englewood, Colorado 80112, telephone number (877) 772-1518.

Incentive Plan Committee

Our board of directors has also established an incentive plan committee, which is a subcommittee of the compensation committee. The members of the incentive plan committee are Donne F. Fisher and Paul A. Gould. The incentive plan committee has sole responsibility for the administration of our employee incentive plans.

Nominating and Corporate Governance Committee

Our board of directors has established a nominating and corporate governance committee, whose members are Donne F. Fisher, Paul A. Gould, David E. Rapley, M. LaVoy Robison and Larry E. Romrell. See " Director Independence" above.

The nominating and corporate governance committee identifies individuals qualified to become board members consistent with criteria established or approved by the board of directors from time to

time, identifies director nominees for upcoming annual meetings, develops corporate governance guidelines applicable to our company and oversees our board and management.

The nominating and corporate governance committee will consider candidates for director recommended by any stockholder provided that such nominations are properly submitted. Eligible stockholders wishing to recommend a candidate for nomination as a director should send the recommendation in writing to the Nominating and Corporate Governance Committee, Liberty Media Corporation, 12300 Liberty Boulevard, Englewood, Colorado 80112. Stockholder recommendations must be made in accordance with our bylaws, as discussed under "Stockholder Proposals" below, and contain the following information:

the proposing stockholder's name and address and documentation indicating the number of shares of our common stock beneficially owned by such person and the holder or holders of record of those shares, together with a statement that the proposing stockholder is recommending a candidate for nomination as a director;

the candidate's name, age, business and residence addresses, principal occupation or employment, business experience, educational background and any other information relevant in light of the factors considered by the nominating and corporate governance committee in making a determination of a candidate's qualifications, as described below;

a statement detailing any relationship, arrangement or understanding that might affect the independence of the candidate as a member of our board;

any other information that would be required under SEC rules in a proxy statement soliciting proxies for the election of such candidate as a director;

a representation as to whether the proposing stockholder intends to deliver any proxy materials or otherwise solicit proxies in support of the director nominee;

a representation that the proposing stockholder intends to appear in person or by proxy at the annual stockholders meeting at which the person named in such notice is to stand for election; and

a signed consent of the candidate to serve as a director, if nominated and elected.

In connection with its evaluation, the nominating and corporate governance committee may request additional information from the proposing stockholder and the candidate. The nominating and corporate governance committee has sole discretion to decide which individuals to recommend for nomination as directors.

To be nominated to serve as a director, a nominee need not meet any specific, minimum criteria; however, the nominating and corporate governance committee believes that nominees for director should possess the highest personal and professional ethics, integrity, values and judgment and should be committed to the long-term interests of our stockholders. When evaluating a potential director nominee, including one recommended by a stockholder, the nominating and corporate governance committee will take into account a number of factors, including, but not limited to, the following:

independence from management;

education and professional background;

judgment, skill, integrity and reputation;

existing commitments to other businesses as a director, executive or owner;

personal conflicts of interest, if any; and

the size and composition of the existing board of directors.

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When seeking candidates for director, the nominating and corporate governance committee may solicit suggestions from incumbent directors, management, stockholders and others. After conducting an initial evaluation of a prospective nominee, the nominating and corporate governance committee will interview that candidate if it believes the candidate might be suitable to be a director. The nominating and corporate governance committee may also ask the candidate to meet with management. If the nominating and corporate governance committee believes a candidate would be a valuable addition to the board of directors, it may recommend to the full board that candidate's nomination and election.

Prior to nominating an incumbent director for re-election at an annual meeting of stockholders, the nominating and corporate governance committee will consider the director's past attendance at, and participation in, meetings of the board of directors and its committees and the director's formal and informal contributions to the various activities conducted by the board and the board committees of which such individual is a member.

The directors who are nominated for re-election at the annual meeting were approved for nomination by the entire board of directors.

Our board of directors has adopted a written charter for the nominating and corporate governance committee. Our board has also adopted corporate governance guidelines, which were developed by the nominating and corporate governance committee, and, as an annex thereto, criteria for director independence. The criteria for director independence consists of categorical standards to be used in determining which of our directors qualify as "independent" for purposes of the NYSE listing standards as well as applicable rules and regulations adopted by the SEC. This charter and the corporate governance guidelines, including the criteria for director independence, is available on our website at www.libertymedia.com. We will provide copies of this charter or the corporate governance guidelines, including the criteria for director independence, free of charge, to any stockholder who calls or submits a request in writing to Investor Relations, Liberty Media Corporation, 12300 Liberty Boulevard, Englewood, Colorado 80112, telephone number (877) 772-1518.

Audit Committee

Our board of directors has established an audit committee, whose members are Donne F. Fisher, Paul A. Gould, David E. Rapley and M. LaVoy Robison. See " Director Independence" above.

Mr. Robison has been designated as an "audit committee financial expert" under applicable SEC rules and regulations. The audit committee reviews and monitors the corporate financial reporting and the internal and external audits of our company. The committee's functions include, among other things:

appointing or replacing our independent auditors;

reviewing and approving in advance the scope and the fees of our annual audit and reviewing the results of our audits with our independent auditors;

reviewing and approving in advance the scope and the fees of non-audit services of our independent auditors;

reviewing compliance with and the adequacy of our existing major accounting and financial reporting policies;

reviewing our management's procedures and policies relating to the adequacy of our internal accounting controls and compliance with applicable laws relating to accounting practices;

reviewing compliance with applicable Securities and Exchange Commission and stock exchange rules regarding audit committees; and

preparing a report for our annual proxy statement.

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Our board of directors has adopted a written charter for the audit committee, which is available on our website at www.libertymedia.com. We will provide a copy of the charter, free of charge, to any stockholder who calls or submits a request in writing to Investor Relations, Liberty Media Corporation, 12300 Liberty Boulevard, Englewood, Colorado 80112, telephone number (877) 772-1518.

Audit Committee Report

Each member of the audit committee is an independent director as determined by Liberty Media Corporation's board of directors, based on the NYSE listing standards and the criteria of director independence adopted by the board of directors. Each member of the audit committee also satisfies the SEC's independence requirements for members of audit committees. M. LaVoy Robison is Liberty Media Corporation's "audit committee financial expert" under applicable SEC rules and regulations.

The audit committee reviews Liberty Media Corporation's financial reporting process on behalf of its board of directors. Management has primary responsibility for establishing and maintaining adequate internal controls, for preparing financial statements and for the public reporting process. KPMG LLP, Liberty Media Corporation's independent auditor for 2005, is responsible for expressing opinions on the conformity of Liberty Media Corporation's audited consolidated financial statements with U.S. generally accepted accounting principles and on management's assessment of the effectiveness of Liberty Media Corporation's internal control over financial reporting. KPMG also will express its own opinion as to the effectiveness of Liberty Media Corporation's internal control over financial reporting.

The audit committee has reviewed and discussed with management and KPMG Liberty Media Corporation's most recent audited consolidated financial statements, as well as management's assessment of the effectiveness of Liberty Media Corporation's internal control over financial reporting and KPMG's evaluation of the effectiveness of Liberty Media Corporation's internal control over financial reporting. The audit committee has also discussed with KPMG the matters required to be discussed by the Statement on Auditing Standards No. 61, Communication with Audit Committees, as modified or supplemented, including that firm's judgment about the quality of Liberty Media Corporation's accounting principles, as applied in its financial reporting.

KPMG has provided the audit committee with the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as modified or supplemented, and the audit committee has discussed with KPMG that firm's independence from Liberty Media Corporation and its subsidiaries.

Based on the reviews, discussions and other considerations referred to above, the audit committee recommended to the board of directors of Liberty Media Corporation that the audited financial statements be included in Liberty Media Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, which was filed on March 8, 2006 with the SEC.

Submitted by the Members of the Audit Committee
Donne F. Fisher
Paul A. Gould
David E. Rapley
M. LaVoy Robison

Other

Our board of directors, by resolution, may from time to time establish certain other committees of our board of directors, consisting of one or more of our directors. Any committee so established will have the powers delegated to it by resolution of our board of directors, subject to applicable law.

CEO Certifications

During 2005, we submitted to the NYSE a Section 12(a) CEO Certification signed by Robert R. Bennett, our President and Chief Executive Officer at the time of that submission, regarding compliance with the NYSE's corporate governance listing standards. We also filed as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2005 the certifications of each of our chief executive officer, principal financial officer and principal accounting officer, as required under Section 302 of the Sarbanes-Oxley Act of 2002.

Board Meetings

During 2005, there were eleven meetings of our full board of directors, two meetings of our compensation committee, three meetings of our incentive plan committee, one meeting of our nominating and corporate governance committee and five meetings of our audit committee. Donne F. Fisher missed two meetings of our full board of directors and one audit committee meeting. David E. Rapley and Robert R. Bennett each missed one meeting of our full board of directors.

Director Attendance at Annual Meetings

Our board of directors encourages all members of the board to attend each annual meeting of our stockholders. Five of our then-seven board members attended our 2005 annual meeting of stockholders. Larry E. Romrell and Donne F. Fisher did not attend our 2005 annual meeting of stockholders.

Stockholder Communication with Directors

Our stockholders may send communications to our board of directors or to individual directors by mail addressed to the Board of Directors or to an individual director c/o Liberty Media Corporation, 12300 Liberty Boulevard, Englewood, Colorado 80112. Communications from stockholders will be forwarded to our directors on a timely basis.

Executive Sessions

In 2005, the non-management directors of our company met at six regularly scheduled executive sessions without management participation. At the beginning of each session, the non-management directors who are present at the session select one non-management director to preside over that session. Any interested party who has a concern regarding any matter which it wishes to have addressed by our non-management directors, as a group, at an upcoming executive session may send its concern in writing addressed to Non-Management Directors of Liberty Media Corporation, c/o Liberty Media Corporation, 12300 Liberty Boulevard, Englewood, Colorado 80112. The current non-management directors of our company are Donne F. Fisher, Paul A. Gould, David E. Rapley, M. LaVoy Robison and Larry E. Romrell.

Executive Compensation

The following tables set forth information relating to compensation, including grants of stock options in respect of our common stock, for the three years ended December 31, 2005 for:

our Chief Executive Officer at year end;

our Chief Executive Officer from January 1, 2005 through August 1, 2005; and

our four other most highly compensated executive officers for the year ended December 31, 2005.

These executive officers are collectively referred to as our "named executive officers".

Summary Compensation Table

Name and Principal Position with Liberty	Year	Salary(1)	Annual Compensation Bonus	Other Annual Compensation	Long-Term Compensation		All Other Compensation
					Restricted Stock Awards	Securities Underlying Options/SARs	
John C. Malone Chief Executive Officer	2005	\$ 2,600	\$	\$ 2,419,225(3)	\$	2,000,000(6)	\$ 459(7)
	2004	\$ 2,700	\$	\$ 2,183,684(3)	\$		\$ 270(7)
	2003	\$ 2,600	\$	\$ 2,075,374(3)	\$		\$ 260(7)
Robert R. Bennett President	2005	\$ 1,000,000	\$ 1,000,000(2)	\$ 469,728(4)	\$		\$ 21,000(7)
	2004	\$ 1,038,462	\$ 1,000,000(2)	\$ 276,946(4)	\$	1,000,000	\$ 20,500(7)
	2003	\$ 1,000,000	\$	\$ 200,022(4)	\$	1,000,000	\$ 817,521(7)(8)
David J.A. Flowers Senior Vice President and Treasurer	2005	\$ 555,000	\$	\$	\$	300,000	\$ 21,000(7)
	2004	\$ 516,846	\$	\$	\$	250,000	\$ 20,500(7)
	2003	\$ 438,000	\$	\$	\$	200,000	\$ 20,000(7)
Albert E. Rosenthaler Senior Vice President	2005	\$ 555,000	\$	\$	\$	300,000	\$ 21,000(7)
	2004	\$ 550,308	\$	\$	\$	250,000	\$ 20,500(7)
	2003	\$ 514,423	\$	\$	\$	250,000	\$ 20,000(7)
Christopher W. Shean Senior Vice President and Contoller	2005	\$ 555,000	\$	\$	\$ 436,000(5)	260,000	\$ 21,000(7)
	2004	\$ 515,385	\$	\$	\$	250,000	\$ 20,500(7)
	2003	\$ 400,000	\$	\$	\$	250,000	\$ 20,000(7)
Charles Y. Tanabe Senior Vice President and General Counsel	2005	\$ 680,000	\$	\$	\$ 436,000(5)	280,000	\$ 21,000(7)
	2004	\$ 676,866	\$	\$	\$	225,000	\$ 20,500(7)
	2003	\$ 632,788	\$	\$	\$	250,000	\$ 20,000(7)

(1)

In 2005 and 2003, our executive officers' annual salaries were based on 26 bi-weekly pay periods per year. In 2004, due to the timing of our pay days, our executive officers' annual salaries were based on 27 bi-weekly pay periods.

(2)

As of October 15, 2004, the Compensation Committee of our board of directors awarded Mr. Bennett an annual bonus to be paid in the form of a deferred compensation arrangement. Pursuant to this arrangement, we agreed to credit \$1,000,000 to an account in the name of Mr. Bennett, as of July 1, 2004, and to credit the account with an 8% per annum investment return, compounded quarterly (such account, the 2004 Bennett Account). The amount in the 2004 Bennett Account is payable to Mr. Bennett upon certain triggering events.

As part of Mr. Bennett's 2005 annual compensation package, Mr. Bennett was granted a performance-based deferred compensation arrangement, pursuant to which we credited, as of July 1, 2005, the sum of \$1,000,000 to an account in the name of Mr. Bennett (such account, the 2005 Bennett Account). Thereafter, the 2005 Bennett Account bears interest at a rate of 8% per annum, compounded quarterly. The amount in the 2005 Bennett Account will be payable to Mr. Bennett upon certain triggering events. The amount in the 2005 Bennett Account, including the investment return accrued through March 31, 2008, will be payable to Mr. Bennett within ten business days following March 31, 2008. See " Employment Contracts and Termination of Employment and Change in Control Arrangements Bennett Employment Agreement" for more information regarding this agreement.

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See footnote (4) below for information regarding interest credited to the 2004 Bennett Account and the 2005 Bennett Account.

(3)

Pursuant to Mr. Malone's employment agreement with our company, Mr. Malone is reimbursed for professional fees and other expenses he may incur for estate planning, tax planning and other services and for personal use of our aircraft and flight crew, as defined in his employment agreement. The aggregate amount of such reimbursements and the value of his personal use of our aircraft is limited to \$500,000 per year. The value of his aircraft use for purposes of the \$500,000 limitation is determined in accordance with Treasury Regulation Section 1.62-21(g), or any successor regulation thereto and aggregated \$65,148, \$74,163, and \$111,997 for the years ended December 31, 2005, 2004 and 2003, respectively. The value of Mr. Malone's aircraft use included in the table above has been calculated based upon the aggregate incremental cost of such

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usage to our company and aggregated \$254,670, \$216,263 and \$317,970 in 2005, 2004, and 2003, respectively. Mr. Malone's employment agreement provides for a deferred compensation arrangement relating to certain monthly compensation. The amounts in the table include \$1,734,298, \$1,540,523 and \$1,368,615 of interest credited thereon in 2005, 2004 and 2003, respectively. See " Employment Contracts and Termination of Employment and Change in Control Arrangements Malone Employment Agreement" for more information regarding Mr. Malone's employment agreement.

- (4) Includes \$286,397, \$184,359 and \$187,809 of compensation related to Mr. Bennett's personal use of our company's aircraft and flight crew during 2005, 2004 and 2003, respectively, which compensation has been calculated based upon the aggregate incremental cost of such usage to our company. In accordance with applicable Treasury Regulations, we included in Mr. Bennett's reportable income for 2005, 2004 and 2003 \$58,429, \$71,926 and \$68,525, respectively, of compensation related to his personal use of our aircraft and flight crew. Includes \$50,000 in each of 2005 and 2004 related to a quarterly deferred compensation arrangement and \$5,767 and \$1,520 of interest credited thereon in 2005 and 2004, respectively. See " CEO Compensation Policies Robert R. Bennett Deferred Compensation" below. Also includes \$85,762 and \$40,400 of interest credited to the 2004 Bennett Account in each of 2005 and 2004, respectively, and \$40,400 of interest credited to the 2005 Bennett Account in 2005.
- (5) Effective August 2, 2005, each of Messrs. Shean and Tanabe were granted 50,000 restricted shares of our Series A common stock. The amount in the table represents the market value of the restricted stock on the date of grant based on the closing price that day. The shares vest quarterly over a five-year period. As of December 31, 2005, Messrs. Shean and Tanabe each owned 47,500 restricted shares with a market value of \$373,825.
- (6) On June 14, 2005, Mr. Malone was granted 1,800,000 stock options with respect to our Series B common stock and 200,000 stock options with respect to our Series A common stock. The exercise price was equal to the closing market price of the applicable series of common stock on the grant date, and the options vest as to one-third on each of the first three anniversaries of the grant date. The options have a 10-year term.
- (7) Amounts represent contributions to the Liberty Media 401(k) Savings Plan (the "Liberty Savings Plan"). The Liberty Savings Plan provides employees with an opportunity to save for retirement. The Liberty Savings Plan participants may contribute up to 10% of their compensation, and our company contributes a matching contribution of 100% of the participants' contributions. Participant contributions to the Liberty Savings Plan are fully vested upon contribution.

Generally, participants acquire a vested right in our contributions as follows:

Years of service	Vesting Percentage
Less than 1	0%
1-2	33%
2-3	66%
3 or more	100%

With respect to our contributions made to the Liberty Savings Plan in 2005, 2004 and 2003, all of our named executive officers are fully vested.

Directors who are not our employees are ineligible to participate in the Liberty Savings Plan. Under the terms of the Liberty Savings Plan, employees are eligible to participate after three months of service.

- (8) Pursuant to the terms of an agreement entered into in 1991, from January 1992 through December 2001, we paid the premiums due on two \$1,250,000 split-dollar, whole life insurance policies for the benefit of Mr. Bennett, and Mr. Bennett granted an assignment of policy benefits in our favor in the amounts of the premiums we paid. Consistent with the terms of the agreement, in 2003, the compensation committee of our board of directors determined to terminate the assignment in our favor of, and all our obligations under, these policies. In connection with this termination, Mr. Bennett is not required to repay any premiums we paid on these policies. We treated the termination of assignment of policy benefits in our favor as a compensatory bonus to Mr. Bennett during 2003 in an amount equal to the aggregate cash surrender value of the policies (\$397,835), and we paid Mr. Bennett during 2003 an amount equal to the remaining premium payments necessary to fully fund the unfunded policy (\$48,777), together with an additional \$350,909 "gross-up" to account for taxes due on the total bonus. In addition, we reimbursed Mr. Bennett during 2003 for the September 2002 premium payment he made on the unfunded policy in an amount equal to \$16,259.

CEO Compensation Policies

Robert R. Bennett

Personal Aircraft Usage. Pursuant to arrangements entered into with Robert R. Bennett, our former President and Chief Executive Officer, Mr. Bennett was entitled to compensation relating to his personal use of our aircraft and flight crew during calendar years 2003 through 2008 averaging \$250,000 per year. Under those arrangements, the value of this usage was calculated based upon the aggregate incremental cost of his usage to our company.

In March 2005, Mr. Bennett agreed to amend his aircraft usage arrangements and we entered into a time sharing agreement with Mr. Bennett. Under the time sharing agreement, Mr. Bennett was entitled to use our aircraft and flight crew for personal travel, but he was obligated to reimburse our company for each flight he took. We agreed to calculate the amount of this reimbursement in accordance with applicable Treasury Regulations, but in no event was the amount to exceed the actual expenses of the flight taken, as determined in accordance with applicable regulations of the Federal Aviation Agency.

In December 2005, in connection with Mr. Bennett's resignation as our President and Chief Executive Officer, we entered into an employment agreement with Mr. Bennett to govern Mr. Bennett's continued service to our company. Pursuant to the employment agreement, for the period from August 2, 2005 through August 1, 2006, Mr. Bennett is entitled to an aggregate of 60 hours of personal use of our aircraft. The arrangements relating to Mr. Bennett's use of our aircraft in the employment agreement supersede the prior agreements between us and Mr. Bennett regarding Mr. Bennett's personal use of our aircraft. Accordingly, from August 2, 2005 through August 1, 2006, the value of Mr. Bennett's usage of our aircraft will be calculated in accordance with applicable tax regulations. For more information regarding his employment agreement, see " Employment Contracts and Termination of Employment and Change in Control Arrangements Bennett Employment Agreement" below.

Deferred Compensation. Effective as of January 1, 2004, we entered into a deferred compensation agreement with Mr. Bennett, pursuant to which we credit \$12,500 to an account in Mr. Bennett's name at the end of each calendar quarter, beginning on March 31, 2004. The account bears interest at a rate of 8% per annum. We will cease to credit this amount to Mr. Bennett's account on March 31, 2006. The amount in Mr. Bennett's account, including the investment return accrued through March 31, 2008, will be payable to Mr. Bennett within ten business days following March 31, 2008.

Effective as of July 1, 2004, we awarded Mr. Bennett a \$1,000,000 annual bonus which we credited to an account in his name. The account bears interest at a rate of 8% per annum, compounded quarterly. The amount in the account, including the investment return accrued through March 31, 2008, will be payable to Mr. Bennett within ten business days following March 31, 2008.

As part of Mr. Bennett's 2005 annual compensation package, Mr. Bennett was granted a performance-based deferred compensation arrangement, pursuant to which we credited, as of July 1, 2005, the sum of \$1,000,000 to an account in the name of Mr. Bennett. Thereafter, the account bears interest at a rate of 8% per annum, compounded quarterly. The amount in the account will be payable to Mr. Bennett upon certain triggering events. The \$1,000,000 credit was subject to the achievement of at least one of the following two financial targets: (1) our consolidated operating cash flow for the four quarters ending June 30, 2005 equaling or exceeding 105% of our consolidated operating cash flow for the four quarters ended June 30, 2004, or (2) the average closing sale price of our Series A common stock for any ten consecutive trading days during the two quarters ending June 30, 2005 equaling or exceeding 110% of the average closing sale price of our Series A common stock for the month of October 2004, the latter of which has been achieved. The amount in the account, including the

investment return accrued through March 31, 2008, will be payable to Mr. Bennett within ten business days following March 31, 2008.

John C. Malone

For a description of Mr. Malone's compensation, please see "Employment Contracts and Termination of Employment and Change in Control Agreements Malone Employment Agreement."

Option and SAR Grants in Last Fiscal Year

The following table contains information regarding stock options granted during the year ended December 31, 2005 to each of our named executive officers in respect of shares of our Series A and Series B common stock.

	Number of securities underlying options granted(1)	Percent of total options granted to employees in fiscal year(2)	Exercise or base price (\$/sh)(3)	Expiration Date	Grant date present value(4)
John C. Malone	1,800,000	100%	\$ 10.80	June 14, 2015	\$ 6,176,036
John C. Malone	200,000	2.3%	\$ 10.47	June 14, 2015	\$ 662,672
David J.A. Flowers	300,000	3.4%	\$ 8.72	August 2, 2012	\$ 701,238
Albert E. Rosenthaler	300,000	3.4%	\$ 8.72	August 2, 2012	\$ 701,238
Christopher W. Shean	260,000	2.9%	\$ 8.72	August 2, 2012	\$ 607,740
Charles Y. Tanabe	280,000	3.2%	\$ 8.72	August 2, 2012	\$ 654,489

(1) Mr. Malone's grant of 1,800,000 options relates to our Series B common stock. All other option grants relate to our Series A common stock.

(2) Percent calculated based on total options for each series of our common stock granted to all employees in 2005.

(3) Represents the closing market price per share of the respective series of our common stock on the date of grant.

(4) The value shown is based upon the Black-Scholes model and is stated on a present value basis. The key assumptions used in the model for purposes of this calculation include the following: (a) a 4.2% discount rate; (b) a 21% volatility factor; (c) the expected option term (6 years for Mr. Malone's option grants; 4.75 years for all other grants); (d) the closing price of the respective series of common stock on the date of grant; and (e) the exercise price. The actual value realized will depend upon the extent to which the stock price exceeds the exercise price on the date the option is exercised. Accordingly, the realized value, if any, will not necessarily be the value determined by the model.

Discovery Holding Company Option Grants. In connection with our spin off of Discovery Holding Company in July 2005 and pursuant to the antidilution provisions of the Liberty Media Corporation 2000 Incentive Plan (As Amended and Restated Effective April 19, 2004) and various other stock incentive plans administered by the incentive plan committee, our incentive plan committee determined to make adjustments to our outstanding options and stock appreciation rights (collectively, Awards). As of the record date for the spin off of DHC, each outstanding Award held by our employees was divided into (A) an option to purchase shares of DHC stock equal to 0.10 times the number of Awards held by the option holder and (B) an Award to purchase shares of our common stock equal to the same number of shares of our common stock for which the outstanding Award was exercisable. The aggregate exercise price of each pre-spin off Award was allocated between the DHC Award and the

adjusted Old Liberty Award. As a result of the foregoing adjustments, our named executive officers received the following options to acquire DHC common stock.

	Number of securities underlying options granted	Series of Discovery Holding Company common stock	Exercise price	Expiration date
John C. Malone	1,148,540	Series B	\$ 19.06	February 28, 2011
	180,000	Series B	\$ 15.91	June 14, 2008
	138	Series A	\$ 405.13	February 3, 2007
	20,000	Series A	\$ 14.67	June 14, 2008
Robert R. Bennett	1,667,985	Series B	\$ 19.06	February 28, 2011
	2,564	Series A	\$ 31.61	July 11, 2007
	100,000	Series A	\$ 13.00	July 31, 2013
	100,000	Series A	\$ 11.84	August 6, 2014
David J.A. Flowers	147,686	Series A	\$ 17.54	February 28, 2011
	20,000	Series A	\$ 13.00	July 31, 2013
	25,000	Series A	\$ 11.84	August 6, 2014
Albert E. Rosenthaler	51,280	Series A	\$ 14.74	April 1, 2012
	25,000	Series A	\$ 13.00	July 31, 2013
	25,000	Series A	\$ 11.84	August 6, 2014
Christopher W. Shean	28,204	Series A	\$ 17.54	September 21, 2010
	5,641	Series A	\$ 17.54	February 28, 2011
	25,000	Series A	\$ 13.00	July 31, 2013
	25,000	Series A	\$ 11.84	August 6, 2014
Charles Y. Tanabe	196,915	Series A	\$ 17.54	February 28, 2011
	25,000	Series A	\$ 13.00	July 31, 2013
	22,500	Series A	\$ 11.84	August 6, 2014

Aggregated Option/SAR Exercises and Fiscal Year-End Option/SAR Values.

The following table sets forth information concerning (i) exercises of stock options and SARs by the named executive officers during the year ended December 31, 2005 and (ii) the value of unexercised options and SARs as of December 31, 2005.

**Aggregated Option/SAR Exercises in the Last Fiscal Year and
Fiscal Year-End Option/SAR Values**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at December 31, 2005 (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options/SARs at December 31, 2005 (\$) Exercisable/ Unexercisable
John C. Malone				
Series A				
Exercisable		\$	1,375	\$
Unexercisable		\$	200,000	\$
Series B				
Exercisable		\$	9,475,456	\$
Unexercisable		\$	3,809,946	\$
Robert R. Bennett				
Series A				
Exercisable		\$	2,025,640	\$
Unexercisable		\$		\$
Series B				
Exercisable		\$	16,679,853	\$
Unexercisable		\$		\$
David J.A. Flowers				
Series A				
Exercisable		\$	1,367,163	\$ 30,000
Unexercisable		\$	859,701	\$ 120,000
Albert E. Rosenthaler				
Series A				
Exercisable		\$	425,150	\$ 30,000
Unexercisable		\$	887,650	\$ 120,000
Christopher W. Shean				
Series A				
Exercisable		\$	490,596	\$ 30,000
Unexercisable		\$	607,852	\$ 120,000
Charles Y. Tanabe				
Series A				
Exercisable		\$	1,787,050	\$ 27,000
Unexercisable		\$	937,102	\$ 108,000

Liberty Global Option Exercises. In connection with our spin off of Liberty Media International in June 2004, certain of our employees, including our named executive officers, received options to purchase shares of Liberty Media International common stock, which were later exchanged for options of Liberty Global (LGI Options) in connection with the June 2005 business combination transaction

pursuant to which Liberty Global became the parent company of Liberty Media International. During 2005, Mr. Rosenthaler exercised 16,298 LGI Options and realized value of \$228,884; Mr. Shean exercised 6,002 LGI Options and realized value of \$96,512; and Mr. Tanabe exercised 15,000 LGI Options and realized value of \$248,921.

DHC Options Exercises. As noted above, in connection with our spin off of DHC, certain of our employees, including our named executive officers, received options to purchase shares of DHC. None of our named executive officers exercised any of their DHC options in 2005.

Compensation of Directors

Each of our directors who is not an employee of our company is paid an annual fee of \$50,000 (which we refer to as Director Fees) and is permitted to participate in our company's health benefits plans. The chairman of the audit committee of our board of directors and each other member of that committee is paid an additional annual fee of \$20,000 and \$10,000, respectively. With respect to our executive committee, compensation committee, incentive plan committee and nominating and corporate governance committee, each member thereof who is not an employee of our company receives an additional annual fee of \$5,000 for his participation on each such committee, except that any committee member who is also the chairman of that committee instead receives an additional annual fee of \$10,000 for his participation on that committee. Director Fees are payable quarterly in arrears in cash or, at the election of the director, in shares of our common stock. Fees for participation on committees are payable quarterly in arrears in cash only. In addition, we reimburse members of our board for travel expenses incurred to attend any meetings of our board or any committee thereof and for expenses incurred to attend any educational programs which we have asked them to attend.

Effective June 1, 2005 and pursuant to the Liberty Media Corporation 2002 Nonemployee Director Incentive Plan our board granted each of our nonemployee directors 11,000 free standing SARs at an exercise price of \$10.36. These SARs vest on the first anniversary of the grant date and had a grant date fair value of approximately \$4.50 per share. In addition, our board has agreed to grant 11,000 freestanding SARs to each nonemployee director in office on each subsequent June 1 until June 1, 2010 at an exercise price equal to the market value of our Series A common stock on the date of grant.

Employment Contracts and Termination of Employment and Change in Control Arrangements

Malone Employment Agreement

In connection with the merger of TCI and AT&T in 1999, an employment agreement between Mr. Malone and TCI was assigned to us. The term of Mr. Malone's employment agreement is extended daily so that the remainder of the employment term is five years. The employment agreement was amended in June 1999 to provide for, among other things, an annual salary of \$2,600, subject to increase upon approval of our board. The employment agreement was amended in 2003 to provide for payment or reimbursement of professional fees and other expenses incurred by Mr. Malone for estate, tax planning and other services, and for personal use of our aircraft and flight crew. The aggregate amount of such payments or reimbursements and the value of his personal use of our aircraft is limited to \$500,000 per year. The value of his aircraft use is to be determined in accordance with Treasury Regulation Section 1.62-21(g), or any successor regulation thereto.

Mr. Malone's employment agreement provides, among other things, for deferral of a portion (not in excess of 40%) of the monthly compensation payable to him for all employment years commencing on or after January 1, 1993. The deferred amounts will be payable in monthly installments over a 20-year period commencing on the termination of Mr. Malone's employment, together with interest thereon at the rate of 8% per annum compounded annually from the date of deferral to the date of payment.

Mr. Malone's employment agreement also provides that, upon termination of his employment by us (other than for cause, as defined in the agreement) or if Mr. Malone elects to terminate the agreement because of a change in control of our company, all remaining compensation due under the agreement for the balance of the employment term shall be immediately due and payable.

Mr. Malone's agreement provides that, during his employment with us and for a period of two years following the effective date of his termination of employment with us, unless termination results from a change in control of our company, he will not be connected with any entity in any manner specified in the agreement, which competes in a material respect with our business. The agreement provides, however, that Mr. Malone may own securities of any corporation listed on a national securities exchange to the extent of an aggregate of 5% of the amount of such securities outstanding.

For a period of 12 months following a change in control, as defined in Mr. Malone's employment agreement, our ability to terminate Mr. Malone's employment for cause will be limited to situations in which Mr. Malone has entered a plea of guilty to, or has been convicted of, the commission of a felony offense.

Mr. Malone's agreement also provides that in the event of termination of his employment with us, he will be entitled to receive 240 consecutive monthly payments of \$15,000 (increased at the rate of 12% per annum compounded annually from January 1, 1988 to the date payment commences), the first of which will be payable on the first day of the month succeeding the termination of Mr. Malone's employment. In the event of Mr. Malone's death, his beneficiaries will be entitled to receive the foregoing monthly payments.

Mr. Malone deferred a portion of his monthly compensation under his previous employment agreement for all employment years ending on or prior to December 31, 1992. We assumed the obligation to pay that deferred compensation in connection with the merger of AT&T and TCI. The compensation that he deferred (together with interest on that compensation at the rate of 13% per annum compounded annually from the date of deferral to the date of payment) will continue to be payable under the terms of the previous agreement. The rate at which interest accrues on the previously deferred compensation was established in 1983 pursuant to the previous agreement.

Bennett Employment Agreement

We have entered into an employment agreement with Robert R. Bennett, our former President and Chief Executive Officer. Pursuant to this agreement, through March 31, 2006, Mr. Bennett is entitled to continue receiving his base salary of \$1,000,000 per annum. He is also entitled to receive a performance bonus in the amount of \$750,000 payable following March 31, 2006. From April 1, 2006 through March 31, 2008, Mr. Bennett will remain employed by us and will be entitled to receive a base salary at the rate of \$500,000 per annum. Also through March 31, 2008, he will be entitled to office support services and to use of our New York City apartment. From April 1, 2008 through August 31, 2014, Mr. Bennett will continue to be employed by us and will be entitled to receive a base salary at the rate of \$3,000 per annum and an additional amount of cash compensation based on the hours of service he provides to us at an hourly rate to be agreed by us and Mr. Bennett. Mr. Bennett is also entitled to continue his participation in our savings and welfare benefit plans and programs through August 31, 2014, subject to the terms and conditions of those plans.

Mr. Bennett's employment agreement is subject to the earlier termination of Mr. Bennett's employment (i) upon his death, (ii) by us in connection with his disability, (iii) by us for cause or (iv) by Mr. Bennett for any reason. If his employment terminates by reason of his death or disability (A) prior to April 1, 2008, Mr. Bennett (or his estate) will be entitled to receive his base salary through March 31, 2008, or (B) on or after April 1, 2008 but prior to August 31, 2014, Mr. Bennett (or his estate) will be entitled to receive his base salary through August 31, 2014. If Mr. Bennett's employment

is terminated (x) by us for cause or (y) by Mr. Bennett, he will be entitled to receive his base salary through the date of termination.

All of Mr. Bennett's existing stock incentive awards with respect to our common stock are currently exercisable, and Mr. Bennett will continue to be treated as employed by us for all purposes under such awards during the term of his employment under the Employment Agreement.

Mr. Bennett's deferred compensation arrangements and his ability to use our personal aircraft are described above under " Executive Compensation."

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

The members of the Compensation Committee are Donne F. Fisher, Paul A. Gould, David E. Rapley, M. LaVoy Robison and Larry E. Romrell. The members of our incentive plan committee, which is a subcommittee of our compensation committee, are Paul A. Gould and Donne F. Fisher. No member of our compensation committee or our incentive plan committee was, during 2005, an officer or employee of our company, was formerly an officer of our company or had any relationship requiring disclosure under the federal securities laws.

Report of the Compensation Committee on Executive Compensation

General Executive Compensation Policy

The executive compensation policy of Liberty Media Corporation is designed (i) to attract qualified individuals who have the potential as executive officers to contribute to Liberty Media Corporation's long-term growth and success, as measured, among other things, by the growth in value of its equity, (ii) to motivate Liberty Media Corporation's executive officers to maximize their contribution to Liberty Media Corporation and (iii) to retain Liberty Media Corporation's executive officers in its employ. Accordingly, Liberty Media Corporation's executive compensation policy is designed to offer its executive officers competitive compensation opportunities that are tied to their contribution to Liberty Media Corporation's growth and success and their personal performance. Each executive officer's compensation package (other than Liberty Media Corporation's current and former Chief Executive Officers' compensation packages, which are described in detail below) is comprised primarily of base salary, stock-based incentives and matching contributions to the Liberty Media 401(k) Savings Plan.

The compensation committee evaluates certain qualitative factors relating to the performance of each of Liberty Media Corporation's executive officers, including its current and former Chief Executive Officers, such as:

experience;

responsibilities assumed;

demonstrated leadership ability;

overall effectiveness;

the level of an executive's compensation in relation to other executives in Liberty Media Corporation with the same, more or less responsibilities; and

the performance of the group for which the executive is primarily responsible.

Implementation of Executive Compensation Policy

The following describes the manner in which Liberty Media Corporation's executive compensation policy was implemented generally with respect to the year ended December 31, 2005. Also summarized

below are several of the more important factors which were considered in establishing the components of Liberty Media Corporation's executive officers' compensation packages for the year ended December 31, 2005. Additional factors were also taken into account, and the compensation committee may, in its discretion, apply entirely different factors, particularly different measures of performance, in setting executive compensation for future fiscal years, but it is expected that all compensation decisions will be designed to further Liberty Media Corporation's executive compensation policy set forth above.

Base Salary. Liberty Media Corporation's former Chief Executive Officer, Robert R. Bennett, recommended to the compensation committee new base salary levels for each of Liberty Media Corporation's executive officers. These recommendations were based upon (i) a desire to cover regional cost of living increases, (ii) his assessment of the individual's contribution to Liberty Media Corporation, (iii) any increase in the scope of the individual's responsibilities and (iv) salaries paid to similarly situated officers at comparable companies. The compensation committee reviewed these recommendations in light of available statistical data, including changes in the consumer price index, and approved the recommended base salary increases.

Stock-Based Incentives. To reflect the committee's assessment of the favorable performance of Liberty Media Corporation's executive officers, the compensation committee recommended to the incentive plan committee, and the incentive plan committee approved, grants to each of Liberty Media Corporation's executive officers (other than its current and former Chief Executive Officers) of options to acquire between 260,000 and 325,000 shares of Liberty Media Corporation's Series A common stock, with two recipients of the lesser option grants each receiving an additional grant of 50,000 restricted shares of Liberty Media Corporation's Series A common stock. In making these recommendations, the compensation committee considered industry, peer group and national surveys of compensation, as well as the past and expected future contributions of the individual executive officers.

401(k). Consistent with past practice, Liberty Media Corporation continued to match contributions made to the Liberty Media 401(k) Savings Plan by its executive officers.

CEO Compensation

Robert R. Bennett

In setting the compensation payable to Liberty Media Corporation's former Chief Executive Officer, Robert R. Bennett, for the year ended December 31, 2005, the compensation committee decided to maintain his base salary at \$1,000,000 and to increase his overall compensation package with a performance bonus and certain deferred compensation arrangements. Mr. Bennett was also entitled to compensation during 2005 relating to his personal use of Liberty Media Corporation's aircraft and flight crew. On August 2, 2005, Mr. Bennett resigned as Chief Executive Officer, but continued as the President and a director of Liberty Media Corporation. Mr. Bennett continued to receive his compensation package throughout 2005 for his service as President of Liberty Media Corporation.

The compensation committee approved a performance bonus of \$750,000 payable to Mr. Bennett following March 31, 2006.

Pursuant to a quarterly deferred compensation arrangement originally approved by the compensation committee in 2004, Liberty Media Corporation credited \$12,500 to an account in Mr. Bennett's name at the end of each calendar quarter of 2005. Pursuant to a separate deferred compensation arrangement, Liberty Media Corporation credited, as of July 1, 2005, \$1,000,000 to an account in the name of Mr. Bennett. The amount in each of these accounts, together with a separate account previously established on July 1, 2004 with a credit of \$1,000,000, is expected to be payable to Mr. Bennett in the second quarter of 2008. Each deferred compensation account accrues interest at a rate of 8% per annum, compounded quarterly.

The performance bonus and deferred compensation arrangements together reflect the compensation committee's assessment of Mr. Bennett's favorable performance, as well as Liberty Media Corporation's corporate performance.

Although Mr. Bennett was not granted any stock incentive awards in 2005, the compensation committee recommended, and the incentive plan committee approved, in connection with Mr. Bennett's resignation as Chief Executive Officer, the acceleration of all of his outstanding and unvested stock incentive awards with respect to Liberty Media Corporation's common stock.

In setting Mr. Bennett's 2005 compensation package, the compensation committee considered the various qualitative factors described above.

John C. Malone

Upon Mr. Bennett's resignation, the board of directors elected John C. Malone, Chairman of the board of directors of Liberty Media Corporation, to replace Mr. Bennett as Chief Executive Officer until a successor has been identified. Mr. Malone receives compensation as Chairman of the board of directors pursuant to his employment agreement with Liberty Media Corporation (which was originally an employment agreement with TCI that was assigned to and assumed by the Corporation in connection with the merger of TCI and AT&T in 1999) and is described in greater detail under " Employment Contracts and Termination of Employment and Change in Control Arrangements Malone Employment Agreement". Mr. Malone received no additional compensation for his service as Liberty Media Corporation's interim Chief Executive Officer.

Earlier in 2005, the compensation committee recommended to the incentive plan committee, and the incentive plan committee approved, a grant to Mr. Malone of options to acquire 1.8 million shares of Liberty Media Corporation's Series B common stock and 200,000 shares of Liberty Media Corporation's Series A common stock. This grant, which was made to Mr. Malone for his service as Liberty Media Corporation's Chairman of the Board, reflects the compensation committee's assessment of Mr. Malone's favorable performance and the compensation committee's recognition of Mr. Malone's long-term contributions to Liberty Media Corporation, including Mr. Malone's strategic vision for Liberty Media Corporation.

Gregory B. Maffei

The compensation committee approved certain compensation arrangements for Gregory B. Maffei in connection with his appointment as CEO-Elect of Liberty Media Corporation on November 8, 2005. Effective November 14, 2005, Mr. Maffei became entitled to receive base salary at the rate of \$1,000,000 per annum, plus a performance bonus payable following 2005 based on the achievement of goals to be determined by the board of directors, not to exceed \$1,000,000 per annum. Mr. Maffei, who is relocating to the Denver area, is also entitled to reimbursement for commuting costs and relocation expenses.

In addition, the compensation committee recommended, and the incentive plan committee approved, a grant to Mr. Maffei of options to acquire 5.5 million shares of Liberty Media Corporation's Series A common stock.

The compensation committee determined that the foregoing compensation package was appropriate for a candidate for Chief Executive Officer with Mr. Maffei's experience and credentials.

Submitted by the Members of the Compensation Committee

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2005, with respect to shares of our common stock authorized for issuance under our equity compensation plans.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
Liberty Media Corporation 2000 Incentive Plan (As Amended and Restated Effective April 19, 2004):			
Series A common stock	44,053,410	\$ 9.46	50,352,256(1)
Series B common stock	29,965,255	\$ 10.92	
Liberty Media Corporation 2002 Nonemployee Director Incentive Plan			
Series A common stock	177,804	\$ 8.44	4,790,821(1)
Series B common stock			
Equity compensation plans not approved by security holders			
None			
Total	74,196,469	\$ 10.05	55,143,077

- (1) Each plan permits grants of, or with respect to, shares of our Series A common stock or Series B common stock subject to a single aggregate limit.

Certain Relationships and Related Transactions

Our current director and former President and Chief Executive Officer, Robert R. Bennett, indirectly holds a 33.3% membership interest in Timesarrow Capital I, LLC, an entity which owns shares representing a 1.9% common equity interest in Wildblue Communications, Inc. and shares representing 8.8% of a junior series of preferred stock of Wildblue. We own an approximate 32% equity interest in Wildblue. In January 2006, a subsidiary of our company acted as lead arranger for Wildblue's \$218.4 million credit facility, and we indirectly supplied almost all of the financing under the credit facility. Timesarrow supplied \$3 million of financing to Wildblue under the credit facility.

Stock Performance Graphs

The following graph compares the yearly percentage change in the cumulative total shareholder return on our Series A common stock (and its predecessor securities), our Series B common stock (and its predecessor securities), the S&P 500 Media Index, which reflects the performance of companies in our peer group, and the S&P 500 Index. In addition, we have included in the returns presented below the estimated values attributable to the dividends paid in connection with the June 2004 spin off of Liberty Media International and the July 2005 spin off of DHC.

The cumulative total shareholder return on our Series A common stock is based on the following chronological history of our Series A common stock (and its predecessor securities), beginning

December 31, 2000. On March 9, 1999, in the merger of TCI and AT&T, each share of TCI's Liberty Media Group Series A common stock was exchanged for one share of AT&T's Class A Liberty Media Group common stock, par value \$1.00 per share. From March 9, 1999 through August 9, 2001, AT&T's Class A Liberty Media Group common stock traded on the NYSE under the symbol "LMG.A". On August 10, 2001, in our split off from AT&T, each share of AT&T's Class A Liberty Media Group common stock was redeemed for one share of our Series A common stock. From August 10, 2001 through December 31, 2001, our Series A common stock traded on the NYSE under the symbol "LMC.A". Beginning January 2, 2002, our Series A common stock began trading on the NYSE under the symbol "L". The line on the graph representing our Series A common stock reflects the cumulative total shareholder returns, as adjusted, for each of the foregoing component securities.

The cumulative total shareholder return on our Series B common stock is based on the following chronological history of our Series B common stock (and its predecessor securities), beginning December 31, 1999. On March 9, 1999, in the merger of TCI and AT&T, each share of TCI's Liberty Media Group Series B common stock was exchanged for one share of AT&T's Class B Liberty Media Group common stock, par value \$1.00 per share. From March 9, 1999 through August 9, 2001, AT&T's Class B Liberty Media Group common stock traded on the NYSE under the symbol "LMG.B". On August 10, 2001, in our split off from AT&T, each share of AT&T's Class B Liberty Media Group common stock was redeemed for one share of our Series B common stock. From August 10, 2001 through the date of this proxy, our Series B common stock has traded on the NYSE under the symbol "LMC.B". The line on the graph representing our Series B common stock reflects the cumulative total shareholder returns, as adjusted, for each of the foregoing component securities.

	<u>12/31/00</u>	<u>12/31/01</u>	<u>12/31/02</u>	<u>12/31/03</u>	<u>12/31/04</u>	<u>12/31/05</u>
Liberty Series A	100.00	103.23	65.92	87.67	94.30	82.29
Liberty Series B	100.00	81.07	49.07	73.60	72.53	61.65
S&P Media Index	100.00	88.92	60.90	77.52	74.85	64.84
S&P 500 Index	100.00	86.96	66.64	84.22	91.79	94.55

ADDITIONAL INFORMATION

Legal Matters

Legal matters relating to the validity of the securities to be issued in the merger contemplated by the restructuring will be passed upon by Baker Botts L.L.P.

Experts

The consolidated balance sheets of Liberty Media Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2005 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 have been included herein in reliance upon the reports, dated March 7, 2006, of KPMG LLP, registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

Stockholder Proposals

This proxy statement/prospectus relates to our annual meeting of stockholders for the calendar year 2006 which will take place on May 9, 2006. We currently expect that New Liberty's annual meeting of stockholders (or, if for any reason the restructuring is not completed, our annual meeting of stockholders) for the calendar year 2007 will be held during the second quarter of 2007. In order to be eligible for inclusion in the proxy materials for the 2007 annual meeting, any stockholder proposal must have been submitted in writing to our Corporate Secretary and received at our executive offices at 12300 Liberty Boulevard, Englewood, Colorado 80112, by the close of business on December 7, 2006 unless a later date is determined and announced in connection with the actual scheduling of the annual meeting. To be considered for presentation at the 2007 annual meeting, any stockholder proposal must have been received at our executive offices at the foregoing address on or before the close of business on February 8, 2007 or such later date as may be determined and announced in connection with the actual scheduling of the annual meeting.

All stockholder proposals for inclusion in our proxy materials will be subject to the requirements of the proxy rules adopted under the Exchange Act and, as with any stockholder proposal (regardless of whether it is included in our proxy materials), our charter and bylaws and Delaware law.

Where You Can Find More Information

New Liberty is filing with the Securities and Exchange Commission a registration statement on Form S-4 under the Securities Act with respect to the securities being offered by this proxy statement/prospectus. This proxy statement/prospectus, which forms a part of the registration statement, does not contain all the information included in the registration statement and the exhibits thereto. You should refer to the registration statement, including its exhibits and schedules, for further information about us, New Liberty and the securities being offered hereby.

We are subject to the information and reporting requirements of the Exchange Act and, in accordance with the Exchange Act, we file periodic reports and other information with the Securities and Exchange Commission. If the restructuring is approved and completed, New Liberty will become our successor for reporting purposes under the Exchange Act. You may read and copy any document that we file at the Public Reference Room of the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at (800) SEC-0330. You may also inspect such filings on the Internet website maintained by the SEC at www.sec.gov. Information contained on any website referenced in this proxy statement/prospectus is not incorporated by reference in this proxy

statement/prospectus. In addition, copies of documents filed by us with the Securities and Exchange Commission are also available by contacting us by writing or telephoning the office of Investor Relations:

Liberty Media Corporation
12300 Liberty Boulevard
Englewood, Colorado 80112
Telephone: (877) 772-1518

The Securities and Exchange Commission allows us to "incorporate by reference" information into this document, which means that we can disclose important information about us to you by referring you to other documents. The information incorporated by reference is an important part of this proxy statement/prospectus, and is deemed to be part of this document except for any information superseded by this document or any other document incorporated by reference into this document. Any statement, including financial statements, contained in our Annual Report on Form 10-K for the year ended December 31, 2005 shall be deemed to be modified or superseded to the extent that a statement, including financial statements, contained in this proxy statement/prospectus or in any other later incorporated document modifies or supersedes that statement. We incorporate by reference the documents listed below and any future filings we make with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than any report or portion thereof furnished or deemed furnished under any Current Report on Form 8-K) prior to the date on which the annual meeting is held:

Annual Report on Form 10-K for the year ended December 31, 2005, filed on March 8, 2006.

Current Report on Form 8-K, filed on March 3, 2006.

DESCRIPTION OF BUSINESS

General

We are a holding company which, through ownership of interests in subsidiaries and other companies, is primarily engaged in the electronic retailing, media, communications and entertainment industries. Through our subsidiaries, we operate in the United States, Europe and Asia. If the reclassification is completed, we will have two tracking stocks, the Liberty Interactive common stock and the Liberty Capital common stock whose terms are intended to track and reflect the separate economic performance of the Interactive Group and the Capital Group, respectively. Set forth in this section is a description of the businesses attributed to each of the Interactive Group and the Capital Group. Although we are describing these businesses separately for purposes of establishing our tracking stock structure and in order to give you a better understanding of the assets attributed to each group, the two groups are not separate legal entities and the holders of each group's stock are our stockholders.

The Interactive Group is comprised of our interests in our subsidiaries QVC, Inc. (which has \$800 million of bank debt) and Provide Commerce, Inc., our interests in IAC/InterActiveCorp, Expedia, Inc. and such other of our assets and liabilities that our board of directors may in the future determine to attribute to the Interactive Group or may be acquired in the future for the Interactive Group. In addition, we will attribute approximately \$4.48 billion principal amount, as of December 31, 2005, of our existing parent company debt to the Interactive Group.

The Capital Group is comprised of the remainder of our businesses and assets, including our interests in our subsidiaries Starz Entertainment Group LLC, On Command Corporation, OpenTV Corp. and TruePosition, Inc, our interests in our equity affiliates Courtroom Television Network LLC, GSN, LLC and WildBlue Communications, and our interests in News Corporation, Time Warner Inc., Sprint Nextel Corporation and Motorola Inc. and such other assets and liabilities that our board of directors may in the future determine to attribute to the Capital Group or may be acquired in the future for the Capital Group. In addition, we will allocate approximately \$4.58 billion principal amount, as of December 31, 2005, of our existing parent company debt to the Capital Group.

The Interactive Group

The Interactive Group includes businesses primarily focused on video and on-line commerce.

QVC, Inc.

QVC, Inc. and its subsidiaries market and sell a wide variety of consumer products in the U.S. and several foreign countries primarily by means of merchandise-focused televised shopping programs on the QVC networks and, to a lesser extent, via the Internet through its domestic and international websites. QVC programming is divided into segments that are televised live with a host who presents the merchandise, sometimes with the assistance of a guest representing the product vendor, and conveys information relating to the product to QVC's viewers. QVC's websites offer a complement to televised shopping by allowing consumers to purchase a wide assortment of goods that were previously offered on the QVC networks, as well as other items that are available from QVC only via its websites. For the year ended December 31, 2005, approximately 18% of QVC's domestic revenue and approximately 16% of QVC's total revenue was generated from sales of merchandise ordered through its various websites.

QVC offers a variety of merchandise at competitive prices. QVC purchases, or obtains on consignment, products from domestic and foreign manufacturers and wholesalers, often on favorable terms based upon the volume of the transactions. QVC classifies its merchandise into three groups:

home, apparel/accessories and jewelry. For the year ended December 31, 2005, home, apparel/accessories and jewelry accounted for approximately 45%, 33% and 22%, respectively, of QVC's net revenue generated by its United States operations. QVC offers products in each of these merchandise groups that are exclusive to QVC, as well as popular brand name and other products also available from other retailers. QVC's exclusive products are often endorsed by celebrities, designers and other well known personalities. QVC does not depend on any single supplier or designer for a significant portion of its inventory.

QVC distributes its television programs, via satellite or optical fiber, to multichannel video program distributors for retransmission to subscribers in the United States, the United Kingdom, Germany, Japan and neighboring countries that receive QVC's broadcast signals. In the U.S., QVC uplinks its programming from its uplink facility in Pennsylvania to a protected, non-preemptible transponder on a domestic satellite. "Protected" status means that, in the event of a transponder failure, QVC's signal will be transferred to a spare transponder or, if none is available, to a preemptible transponder located on the same satellite or, in certain cases, to a transponder on another satellite owned by the same service provider if one is available at the time of the failure. QVC's international business units each obtain uplinking facilities from third parties for their uplinking and transmit their programming to non-preemptible transponders on five international satellites. "Non-preemptible" status means that, in the event of a transponder failure, QVC's transponders cannot be preempted in favor of a user of a "protected" failure. QVC's transponder service agreement for its domestic transponder expires in 2019. QVC's transponder service agreements for its international transponders expire in 2006 through 2013.

QVC enters into long-term affiliation agreements with satellite and cable television operators who downlink QVC's programming and distribute the programming to their customers. QVC's affiliation agreements with these distributors have termination dates ranging from 2006 to 2015. QVC's ability to continue to sell products to its customers is dependent on its ability to maintain and renew these affiliation agreements in the future.

In return for carrying the QVC signals, each programming distributor in the United States, the United Kingdom and Germany receives an allocated portion, based upon market share, of up to 5% of the net sales of merchandise sold via the television programs to customers located in the programming distributor's service areas. In Japan, some programming distributors receive an agreed-upon monthly fee per subscriber regardless of the net sales, while others earn a variable percentage of net sales. In addition to sales-based commissions or per-subscriber fees, QVC also makes payments to distributors in the United States for carriage and to secure favorable positioning on channel 35 or below on the distributor's channel line-up. QVC believes that a portion of its sales are attributable to purchases resulting from channel "browsing" and that a channel position near broadcast networks and more popular cable networks increases the likelihood of such purchases. As more U.S. cable operators convert their analog customers to digital, channel positioning will become more critical due to the increased channel options on the digital line-up.

QVC's shopping programs are telecast live 24 hours a day to 91 million homes in the United States. QVC Shopping Channel reaches 18 million households in the United Kingdom and the Republic of Ireland and is broadcast live 17 hours a day. QVC's shopping network in Germany reaches 37 million households throughout Germany and Austria and is broadcast live 24 hours a day. QVC Japan, QVC's joint venture with Mitsui & Co., Ltd., reaches 17 million households and is broadcast live 24 hours a day.

QVC strives to maintain promptness and efficiency in order taking and fulfillment. QVC has four domestic phone centers that can direct calls from one call center to another as volume mandates, which reduces a caller's hold time, helping to ensure that orders will not be lost as a result of hang-ups. QVC also has one phone center in each of the United Kingdom and Japan and two call centers in Germany.

QVC also utilizes computerized voice response units, which handle approximately 35% of all orders taken. QVC has seven distribution centers worldwide and is able to ship approximately 88% of its orders within 48 hours.

QVC's business is seasonal due to a higher volume of sales in the fourth calendar quarter related to year-end holiday shopping. In recent years, QVC has earned 22%-23% of its revenue in each of the first three quarters of the year and 32%-33% of its revenue in the fourth quarter of the year.

Ownership Interest. We have an approximate 98% ownership interest in QVC. The QVC management team owns the remaining interest.

IAC/Interactive Corp

IAC/InterActiveCorp is a multi-brand interactive commerce company transacting business worldwide via the Internet, television and the telephone. IAC's portfolio of companies collectively enables direct-to-consumer transactions across many areas, including home shopping, ticketing, personals, travel, teleservices and local services.

IAC consists of the following sectors:

Retailing, which includes HSN U.S., HSN International and Cornerstone Brands, Inc.;

Services, which includes Ticketmaster, Lending Tree and its affiliated brands and businesses, and service outsourcers, including Precision Response Corporation;

Media and Advertising, which includes Ask Jeeves, Inc. and Citysearch; and

Membership and Subscriptions, which includes match.com, Entertainment Publications, which promotes merchants through consumer savings and Interval International, which offers services to time share vacation owners.

IAC's businesses largely act as intermediaries between suppliers and consumers. IAC aggregates supply from a variety of sources and captures consumer demand across a variety of channels.

Ownership Interest. We indirectly own an approximate 22% equity interest and 54% voting interest in IAC. We have entered into governance arrangements pursuant to which Mr. Barry Diller, Chairman of the Board and CEO of IAC, is currently entitled to vote our shares of IAC, subject to certain limitations. Through our governance arrangements we have the right to appoint two of thirteen members of IAC's board of directors.

Expedia, Inc.

Expedia, Inc. is among the world's leading travel services companies, making travel products and services available to leisure and corporate travelers in the United States and abroad through a diversified portfolio of brands, including Expedia, Hotels.com, Hotwire, Expedia Corporate Travel, Classic Custom Vacations and a range of other domestic and international brands and businesses. Expedia's various brands and businesses target the needs of different consumers, including those who are focused exclusively on price and those who are focused on the breadth of product selection and quality of services. Expedia has created an easily accessible global travel marketplace, allowing customers to research, plan and book travel products and services from travel suppliers and allows these travel suppliers to efficiently reach and provide their products and services to Expedia customers. Through its diversified portfolio of domestic and international brands and businesses, Expedia makes available, on a stand-alone and package basis, travel products and services provided by numerous airlines, lodging properties, car rental companies, cruise lines and destination service providers, such as attractions and tours. Using a portfolio approach for Expedia's brands and businesses allows it to target a broad range of customers looking for different value propositions. Expedia reaches many customers

in several countries and multiple continents through its various brands and businesses, typically customizing international points of sale to reflect local language, currency, customs, traveler behavior and preferences and local hotel markets, all of which may vary from country to country.

Expedia generates revenue by reserving travel services as the merchant of record and reselling these services to customers at a profit. Expedia also generates revenue by passing reservations booked by its customers to the relevant services for a fee or commission.

Ownership Interest. We indirectly own an approximately 20% equity interest and 52% voting interest in Expedia. We have entered into governance arrangements pursuant to which Mr. Barry Diller, Chairman of the Board and Senior Executive of Expedia, is currently entitled to vote our shares of Expedia, subject to certain limitations. Through our governance arrangements we have the right to appoint and have appointed two of the nine members of Expedia's board of directors.

Provide Commerce, Inc.

Provide Commerce, Inc. operates an e-commerce marketplace of websites for perishable goods that delivers products directly from suppliers to customers at competitive prices. Provide Commerce combines an online storefront, proprietary supply chain management technology, established supplier relationships and integrated logistical relationships with Federal Express Corporation and United Parcel Service, Inc. to create a market platform that bypasses traditional supply chains of wholesalers, distributors and retailers. Provide Commerce derives its revenue primarily from the sale of flowers and plants on its proflowers.com website and from the sale of gourmet foods from its Uptown Prime, a supplier of premium meats and seafood, Cherry Moon Farms, a supplier of fresh premium fruits, and Secret Spoon, a supplier of fresh desserts and confections, branded websites. Provide Commerce also enters into arrangements with businesses desiring to offer high-quality, time-sensitive or perishable products to customers on a co-branded or private label basis, designing and hosting dedicated websites on behalf of such clients.

Ownership Interest. Provide Commerce is a wholly-owned subsidiary that we acquired on February 9, 2006.

The Capital Group

The following table sets forth information concerning our more significant businesses, business affiliates and holdings that will initially be attributed to the Capital Group. We hold these assets either directly or indirectly through partnerships, joint ventures, common stock investments or instruments convertible into or exchangeable for common stock. Ownership percentages in the table are approximate, calculated as of December 31, 2005, and, where applicable and, except as otherwise noted, assume conversion to common equity by us and, to the extent the necessary information is

known by us, other holders. In some cases, ownership interests may be subject to buy/sell procedures, repurchase rights or dilution, and our voting interest may be different than our ownership interest.

Entity	Business Description	Interest
<i>Consolidated Subsidiaries</i>		
Starz Entertainment Group LLC	Provider of premium movie networks and programming distributed by cable, direct-to-home satellite and other distribution media providers in the United States.	100%
On Command Corporation	Provider of in-room video entertainment and information services to hotels, motels and resorts in the United States.	100%
OpenTV Corp. (NASDAQ: OPTV)	Provider of technology, content and applications, and services that enable digital television network operators to deliver and manage interactive television services.	31%(1)
TruePosition, Inc.	Developer and marketer of technology for locating wireless phones and other wireless devices, enabling wireless carriers, application providers and other enterprises to provide E-911 and other location-based services to mobile users worldwide.	89% (common equity) 100% (preferred stock)
FUN Technologies Inc	Developer and provider of casual gaming and fantasy sports services.	51%
<i>Business Affiliates</i>		
Courtroom Television Network LLC	Owner and operator of Court TV, a basic cable network that provides informative and entertaining programming based on the American legal system.	50%
GSN, LLC	Owner and operator of GSN, a basic cable network that provides game-related programming and interactive game playing.	50%
WildBlue Communications, Inc.	Developer and provider of high speed Internet and data services to rural residential and small business customers.	32%

Investments

News Corporation (NYSE: NWS)	Diversified international media and entertainment company with operations in filmed entertainment, television, cable network programming, direct broadcast satellite television, magazines and inserts, newspapers, book publishing and other.	16%
Time Warner Inc. (NYSE: TWX)	Diversified media and entertainment company with operations in Internet services, cable, filmed entertainment, television and cable network programming and publishing.	4%
Sprint Nextel Corporation (NYSE: S)	Provider of communications products and services, including wireless, long-distance voice and data transport, and Internet protocol.	3%
Motorola, Inc. (NYSE: MOT)	Provider of wireless, broadband, and automotive communications technologies.	3%

- (1) We have an approximate 78% voting interest in OpenTV.

Starz Entertainment Group LLC

Programming networks distribute their services through a number of distribution technologies, including cable television, direct-to-home satellite, broadcast television and the Internet. Programming services may be delivered to subscribers as part of a video distributor's analog or digital package of programming services for a fixed monthly fee, or may be delivered individually as a "premium" programming service for a separate monthly charge. Whether a programming service is a basic or premium channel, the programmer generally enters into separate multi-year affiliation agreements with those distributors that agree to carry the service. Basic programming services derive their revenue principally from the sale of advertising time on their networks and from per subscriber license fees received from distributors. Their continued ability to generate both advertising revenue and subscriber license fees is dependent on these services' ability to maintain and renew their affiliation agreements. Premium services do not sell advertising and primarily generate their revenue from subscriber fees.

Starz Entertainment Group LLC, which we refer to as SEG, provides premium movie networks and programming distributed by cable, direct-to-home satellite, telephony, the Internet and other distribution media providers in the United States. SEG's primary service offerings are (1) Starz, which is primarily a first-run movie service that generally includes five channels branded with the Starz name, each of which exhibits movies targeted to a specific audience and (2) Encore, which airs first-run movies and classic contemporary movies and generally includes six thematic multiplex channels branded with the Encore name, each of which exhibits movies based upon individual themes. Starz is generally purchased by subscribers as an a-la-carte premium service for which subscribers pay a separate monthly charge. Distributors may also package Starz with other premium services. Encore is generally purchased by subscribers as part of a digital package, which includes a variety of general entertainment digital

networks. Distributors may also sell Encore on an a-la-carte basis or packaged with Starz. SEG's services also include Movieplex, a "theme by day" channel featuring a different thematic multiplex channel each day, on a weekly rotation; Starz On Demand; Encore on Demand; Movieplex on Demand and a high definition feed of the Starz channel on StarzHD. In addition, SEG distributes via the Internet Starz Ticket, a subscription package comprising Starz and Starz On Demand; and Vongo, also a subscription package, which, in addition to Starz and Starz On Demand, also offers pay-per-view and other entertainment content. As of December 31, 2005, SEG had 14.1 million Starz subscriptions and 25.8 million Encore subscriptions.

The majority of SEG's revenue is derived from the delivery of movies to subscribers under long-term affiliation agreements with cable systems and direct broadcast satellite systems, including Comcast Cable, DirecTV, Echostar, Time Warner, Charter Communications, Cox Communications, Adelphia Communications, Cablevision Systems, Insight Communications, Mediacom Communications and the National Cable Television Cooperative. Some of SEG's affiliation agreements provide for payments based on the number of subscribers that receive SEG's services. SEG also has affiliation agreements with certain of its customers, including its agreement with Comcast Cable, pursuant to which those customers pay an agreed-upon rate regardless of the number of subscribers. These affiliation agreements generally provide for contractual rate increases or rate increases tied to the annual Consumer Price Index. SEG's agreement with Comcast requires Comcast to carry the Encore and Thematic Multiplex channels through September 2009 and Starz through December 2012. The affiliation agreements with Echostar and DirecTV expire on March 15, 2006 and March 31, 2006, respectively. SEG is currently in negotiations with both providers regarding multi-year distribution agreements for all of SEG's service offerings. SEG's other affiliation agreements expire between now and December 2008. For the year ended December 31, 2005, SEG earned 58% of its total revenue from Comcast, DirecTV and Echostar, collectively.

The costs of acquiring rights to programming are SEG's principal expenses. In order to exhibit theatrical motion pictures, SEG enters into agreements to acquire rights from major motion picture producers including Hollywood Pictures, Touchstone Pictures, Miramax Films, Disney, Revolution Studios, Sony's Columbia Pictures, Screen Gems and Sony Pictures Classics. SEG also has exclusive rights to air first-run output from four independent studios. These output agreements expire between 2006 and 2011, with extensions, at the option of two studios, potentially extending the expiration dates of those agreements to 2013 and 2014.

SEG uplinks its programming to five non-preemptible, protected transponders on three domestic satellites. SEG leases its transponders under long-term lease agreements. At December 31, 2005, SEG's transponder leases had termination dates ranging from 2018 to 2021. SEG transmits to these transponders from its uplink center in Englewood, Colorado.

Ownership Interest. SEG is our wholly-owned subsidiary.

On Command Corporation

On Command Corporation is a leading provider (based on number of hotel rooms served) of in-room video entertainment and information services to hotels, motels and resorts (which we collectively refer to as hotels) primarily in the United States. On Command's base of installed rooms was approximately 813,000 rooms at December 31, 2005.

On Command provides in-room video entertainment and information services on two main technology platforms: the OCV video system and the OCX video system. The OCV video system is a video selection and distribution technology platform that allows hotel guests to select, at any time, movies and games through the television sets in their hotel rooms. The OCX video system is a digital platform that provides the same features as the OCV system and in addition provides enhanced multimedia applications, including an improved graphical interface for movies and games, digital music,

television-based Internet with a wireless keyboard and other guest services. In addition, both of On Command's platforms provide for in-room viewing of select cable channels (such as HBO, Starz, ESPN, CNN, Disney Channel and Discovery). At December 31, 2005, On Command provided its OCX and OCV video systems in 520,000 and 293,000 rooms, respectively.

The hotels providing On Command's services collect fees from their guests for the use of On Command's services and are provided a commission equal to a negotiated percentage of the net revenue earned by On Command for such usage. The amount of revenue realized by On Command is affected by a variety of factors, including among others, hotel occupancy rates, the "buy rate" or percentage of occupied rooms that buy movies or services, the quality of On Command's pay-per-view movie offerings, business and leisure travel patterns and changes in the number of rooms served. With the exception of December, which is generally On Command's lowest month for revenue, On Command typically does not experience significant variations in its monthly revenue that can be attributed solely to seasonal factors.

On Command primarily provides its services under long-term contracts to hotel corporations, hotel management companies, and individually owned and franchised hotel properties. On Command's services are offered predominantly in the large deluxe, luxury, and upscale hotel categories serving business travelers, such as Marriott, Hilton, Six Continents, Hyatt, Wyndham, Starwood, Radisson, Fairmont, Four Seasons and other select hotels. On Command's contracts with hotels generally provide that On Command will be the exclusive provider of in-room, pay-per-view video entertainment services to the hotel and generally permit On Command to set its prices. On Command's contracts with hotels typically set forth the terms governing On Command's provision of free-to-guest programming as well. At December 31, 2005, contracts covering approximately 40% of On Command's installed rooms had expired, or were scheduled to expire, if not otherwise renewed, during the two-year period ending December 31, 2007. Marriott, Hyatt and Hilton accounted for approximately 34%, 8% and 7% respectively, of On Command's room revenues for the year ended December 31, 2005. These revenue percentages represent all chain affiliations including owned, managed and franchised hotels.

Ownership Interest. On Command is our wholly-owned subsidiary.

OpenTV Corp.

OpenTV Corp. provides technology, content and applications and professional services that enable digital television network operators to deliver and manage interactive television services on all major digital television platforms cable, satellite and terrestrial in all major geographic areas of the world. OpenTV's software products, including its core middleware and its interactive service platform, have been shipped in more than 60 million digital set-top boxes worldwide. OpenTV offers its customers a comprehensive suite of interactive and enhanced television solutions that leverage its proprietary software and technologies and worldwide patent portfolio. OpenTV's core software products enable network operators to manage the creation and delivery of interactive and enhanced television services to their subscribers. OpenTV develops and manages branded television channels that allow viewers to play interactive games, and it offers applications that enable viewers to engage in commerce transactions, retrieve information such as weather reports and sports updates, and engage in other interactive services, including fixed-odds gaming, through their televisions. OpenTV also recently began efforts to market and commercially deploy targeted and addressable advertising solutions and research analyses detailing how viewers engage and interact with programs and advertisements. To complement its technologies and interactive content and applications, OpenTV also offers a full suite of professional engineering and consulting services. These services allow OpenTV to manage various interactive television projects, from discrete integration or development assignments to complete end-to-end digital programming solutions for network operators.

OpenTV derives revenue from (1) royalties from the sale of set-top boxes that incorporate OpenTV software; (2) fees for consulting engagements for set-top box manufacturers, network operators and system integrators and maintenance and support for set-top box manufacturers; (3) channel fees from consumers of the PlayJam interactive games channel who pay to play games and register for prizes; and (4) license fees from the sale of products such as Device Mosaic, OpenTV Core, OpenTV Measure and various applications, including OpenTV Publisher. Sky Italia, BSkyB and Echostar accounted for 12%, 19% and 17%, respectively, of OpenTV's revenue in 2005.

While OpenTV is one of the world's leading interactive television companies, the interactive television industry is still in its infancy. The growth of the industry and of OpenTV is highly dependent upon a number of factors, including (i) consumer acceptance of interactive services and products; (ii) deployment of capital by broadband service providers for interactive hardware and software; (iii) acceptance by broadband service providers of OpenTV's interactive technology and products; and (iv) continued development of interactive technology, products and services. These factors are largely not within OpenTV's control and no assurance can be given that interactive television will expand beyond its current state.

Ownership Interest. We own shares of OpenTV's Class A common stock and Class B common stock, representing an approximate 31% equity interest and an approximate 78% voting interest in OpenTV. Each share of OpenTV Class B common stock has 10 votes per share and is convertible into one share of OpenTV Class A common stock, which has one vote per share.

TruePosition, Inc.

TruePosition, Inc. develops and markets technology for locating wireless phones and other wireless devices, enabling wireless carriers, application providers and other enterprises to provide E-911 and other location-based services to mobile users worldwide. "E-911" or "Enhanced 911" refers to a Federal Communications Commission mandate requiring wireless carriers to implement wireless location capability. Cingular Wireless began deploying TruePosition's technology in late 2002, and T-Mobile USA began deploying such technology in 2003. As of December 31, 2005, both wireless carriers are actively deploying TruePosition's technology and using the technology for E-911. In addition, as of December 31, 2005, three smaller wireless carriers have deployed or started to deploy TruePosition's technology. Although many of the following services have not yet been developed, and may not be developed successfully or at all, TruePosition's wireless location technology could also be used to implement a number of commercial location based applications including (1) comfort and security related applications, including child, pet and elderly tracking; (2) convenience/information services such as "concierge" and "personal navigation" to identify and provide directions to the nearest restaurant, ATM, or gas station or allow travelers to obtain other information specific to their location; (3) corporate applications, such as fleet or asset tracking which could enable enterprises to better manage mobile assets to optimize service or cut costs; (4) entertainment/community services such as "friend finder" or "m-dating" which could allow mobile users to create a localized community of people with similar interests and receive notification when another group member is close-by; (5) mobile commerce services to help users shop or purchase goods or services from the retailer closest to their current location; and (6) safety related applications to help public or private safety organizations find or track mobile users in need of assistance or help locate stolen property.

TruePosition earns revenue from the sale of hardware and licensing of software required to generate location records on a cellular network and from the design, installation, testing and commissioning of such hardware and software. In addition, TruePosition earns software maintenance revenue through the provision of ongoing technical and software support. TruePosition has not earned revenue from other location-based services, but it could realize such revenue in the future if such services are developed and offered using TruePosition's technology. Substantially all of TruePosition's reported revenues in 2003, 2004 and 2005 were derived from Cingular Wireless. Recognition of revenue

earned from T-Mobile is deferred pending delivery of specified elements, which to date have not been delivered.

The TruePosition-Registered Trademark- Finder-TM- system is a passive overlay system designed to enable mobile wireless service providers to determine the location of wireless devices, including cellular and PCS telephones. Using patented time difference of arrival (TDOA) and angle of arrival (AOA) technology, the TruePosition Finder-TM- system calculates the latitude and longitude of a designated wireless telephone or other transmitter and forwards this information in real time to application software. TruePosition technology offerings cover multiple major wireless air interfaces, such as Time Division Multiple Access (TDMA), Advanced Mobile Phone Service (AMPS) and Global System Mobile (GSM).

Ownership Interest. We own approximately 89% of the common equity of TruePosition and 100% of the TruePosition preferred stock with a liquidation preference of \$385 million at December 31, 2005.

FUN Technologies Inc.

FUN Technologies Inc., through its wholly-owned subsidiary FUN Technologies plc, is focused on the person-to-person, also known as "peer-to-peer" or "P2P," gaming marketplace. FUN's strategy is to develop, provide and market its Internet-based person-to-person gaming systems to licensed distribution partners in regulated markets around the world. FUN provides online gaming services in two sectors: casual gaming and fantasy sports services. FUN's casual gaming business involves operating and licensing a casual games offering which includes free games, downloadable games, subscription games and pay-for-play person-to-person and tournament-based interactive skill games. FUN's fantasy sports services offer editorial content, sports data, games and leagues to consumers and corporate distribution partners. In the case of skill gaming, FUN derives income from fees collected for online tournaments and games managed less related prizes and other promotional expenses. FUN also generates revenue through game download and subscription fees.

Ownership Interest. We own approximately 51% of the outstanding common shares of FUN on a fully-diluted basis. On March 10, 2006, our then wholly-owned subsidiary acquired all of the ordinary shares of FUN Technologies plc, in exchange for aggregate consideration consisting of approximately £83.7 million in cash and approximately 32.4 million common shares of FUN (including common shares that would be issuable upon exercise of options assumed by FUN). The cash consideration paid to the former stockholders of FUN Technologies plc was funded by way of our subscription for approximately 33.8 million common shares of FUN for aggregate cash consideration of \$50 million plus approximately £83.7 million.

Courtroom Television Network, LLC

Courtroom Television Network, LLC owns and operates Court TV, a basic cable network that provides informative and entertaining programming based on the American legal system. Court TV's day-time programming focuses on trial coverage and legal news. In primetime, the network airs original programming such as FORENSIC FILES and PSYCHIC DETECTIVES, original movies such as THE EXONERATED and GUILT BY ASSOCIATION, reality-based documentary specials and off-network series such as LAW AND ORDER: TRIAL BY JURY and COPS. Court TV was launched in 1991, and as of December 31, 2005 had approximately 85 million Nielsen subscribers. Court TV earns revenue from the sale of advertising on its network, from affiliation agreements with cable television and direct-to-home satellite operators and by licensing its programs for international distribution. Court TV's affiliation agreements with three affiliates representing, in the aggregate, approximately 26% of Court TV's subscribers have expired, and Court TV is in negotiations for the renewal of such agreements. At December 31, 2005, Court TV's other affiliation agreements have remaining terms of five years and provide for payments based on the number of subscribers that receive Court TV's

services. No single distributor represented more than 10% of Court TV's consolidated revenue for 2005. Court TV also operates three Internet websites: CourtTV.com, The SmokingGun.com and CrimeLibrary.com, and earns revenue from the sale of advertising on these websites.

Ownership Interest. We and Time Warner Inc. each own 50% of Courtroom Television Network. Pursuant to Courtroom Television Network's operating agreement, no action may be taken with respect to certain material matters without our approval and that of Time Warner. Also pursuant to Courtroom Television Network's operating agreement, each member has a right of first offer with respect to any proposed transfer by the other member of its interest in Courtroom Television Network other than to an affiliate of the transferring member. In addition, we may at any time require Time Warner to purchase all, but not less than all, of our ownership interest, and Time Warner may require us to sell to it all, but not less than all, of our ownership interest in Courtroom Television Network.

GSN, LLC

GSN, LLC owns and operates GSN. With nearly 58 million subscribers as of December 31, 2005, GSN is a basic cable network dedicated to game-related programming and interactive game playing. GSN offers 24-hour cable programming consisting of game shows, casino games, reality series, documentaries and other game-related shows. GSN currently features 133 hours per week of interactive programming, which allows viewers a chance to win prizes by playing along with GSN's televised games. Players can play along using their computers at GSN.com or, in certain markets where available, using their remote control through a digital cable box.

GSN's revenue is derived from the delivery of its programming to subscribers under long-term affiliation agreements with cable systems and direct broadcast satellite systems and from the sale of advertising on its network. GSN's affiliation agreements provide for payments based on the number of subscribers that receive GSN's services and expire between now and 2008. GSN is currently out of contract with DirecTV, a distributor that accounts for approximately 25% of GSN's current subscriber base, and is in negotiations for the renewal of such contract. For the year ended December 31, 2005, GSN earned 14% of its total revenue from Comcast and 11% of its total revenue from DirecTV.

Ownership Interest. We and Sony Pictures Entertainment, a division of Sony Corporation of America, which is a subsidiary of Sony Corporation, each own 50% of GSN, LLC. GSN's day-to-day operations are managed by a management committee of its board of managers. Pursuant to GSN's operating agreement, we and Sony each have the right to designate half of the members of the management committee. Also pursuant to the operating agreement, we and Sony have agreed that direct transfers of our interests in GSN and certain indirect transfers that result in a change of control of the transferring party are subject to a right of first refusal in favor of the non-transferring member.

WildBlue Communications, Inc.

WildBlue Communications, Inc. delivers two-way broadband Internet access via satellite to homes and small businesses in rural markets underserved by terrestrial broadband alternatives. WildBlue provides coverage across the continental United States using a 26-inch satellite minidish equipped with both a transmitter and receiver for two-way satellite connectivity to the Internet. WildBlue has a prepaid license for Ka-band capacity on a geostationary satellite located at 111.1 degrees West Longitude. The expected life of the satellite is approximately 15 years. In the event the satellite fails at any time through July 2007, WildBlue is entitled to reimbursement of the cash prepayments made for the license.

WildBlue launched its service in 2005 and generates revenue by charging subscription fees for its Internet access services as well as fees for equipment sales and related installation charges. At December 31, 2005, WildBlue had approximately 25,000 subscribers.

Ownership Interest We own an approximate 32% equity interest in WildBlue.

Other Investments

We have significant investments and related derivative positions in the public companies described below. We view these investments as financial assets that we can monetize to generate cash for debt repayments, stock buybacks or additional investments.

News Corporation. News Corp. is a diversified international media and entertainment company with operations in eight industry segments, including filmed entertainment, television, cable network programming, direct broadcast satellite television, magazines and inserts, newspapers, book publishing and other. News Corp.'s activities are conducted principally in the United States, Continental Europe, the United Kingdom, Asia, Australia and the Pacific Basin. News Corp. is a holding company that conducts all of its activities through subsidiaries and affiliates. Its principal subsidiaries and affiliates are Fox Entertainment Group, Inc., Twentieth Century Fox Film Corporation, Fox Television Holdings, Inc., Fox Broadcasting Company, Fox Sports Networks, Inc., NDS Group plc, News America Marketing In-Store Services, Inc., News America Marketing FSI, Inc., News International Limited, News Limited, HarperCollins Publishers, Inc., HarperCollins Publishers Limited, STAR Group Limited, BSkyB and The DIRECTV Group. We own shares representing an approximate 16% equity interest and an approximate 19% voting interest in News Corp.

Time Warner Inc. Time Warner, Inc. is a media and entertainment company operating in five segments: America Online, Inc. (AOL), Cable, Filmed Entertainment, Networks, and Publishing. The AOL segment provides interactive services, Web brands, Internet technologies, and on-line commerce services in the United States and Europe. Time Warner's cable segment offers video, high-speed data, and digital phone services. Its video products include digital video, video-on-demand, subscription-video-on-demand, and digital video recorders. The company's digital phone services consist of easy-to-use package of video, high-speed data, and voice services. The filmed entertainment segment comprises Warner Bros. Entertainment Group, which operates in film, television, and home video businesses, combined with a film library and global distribution infrastructure; and New Line Cinema Corporation that creates and distributes theatrical motion pictures. The networks segment include Turner Broadcasting System, Inc. (Turner), Home Box Office, The WB Television Network (The WB Network) and the CW Network, expected to launch in fall 2006. The company's Turner networks include TBS, TNT, CNN, CNN Headline News, and Cartoon Network channels. The WB Network operates as a broadcast television network. Publishing segment publishes magazines through Time, Inc. and, subject to a pending sale expected to close in the second or third quarter of 2006, books through Time Warner Book Group, Inc. This segment also sells home decor products through approximately 35,000 independent consultants. It publishes approximately 155 magazines, including People, Sports Illustrated, In Style, Southern Living, Time, Entertainment Weekly, Fortune, Real Simple, What's on TV, and Cooking Light. The company's films include The Lord of the Rings trilogy, the Harry Potter series, Million Dollar Baby, and The Polar Express. Time Warner, Inc. is headquartered in New York City. We own an approximate 4% equity interest in Time Warner.

Sprint Nextel Corporation. Sprint Nextel offers a comprehensive suite of wireless and wireline communications products and services that are designed to meet the particular needs of its targeted customer groups: consumer, business and government customers. Its operations are divided into three lines of business: Wireless, Local and Long Distance. Sprint Nextel owns extensive wireless networks and a global long distance backbone. In the 2005 third quarter, a subsidiary of Sprint merged with Nextel, making Sprint Nextel one of the three largest wireless companies in the United States based on the number of wireless subscribers. We own an approximate 4% equity interest in Sprint Nextel.

Motorola, Inc. Motorola, Inc. provides mobility products and solutions across broadband, embedded systems, and wireless networks worldwide. It operates in four segments: Mobile Devices,

Networks, Government and Enterprise Mobility Solutions, and Connected Home Solutions. Mobile Devices designs, manufactures, sells, and services wireless subscriber and server equipment for cellular systems, portable energy storage products and systems, servers and software solutions, and related software and accessory products. Networks segment designs, manufactures, sells, installs, and services wireless infrastructure communication systems. It offers end-to-end wireless networks, including radio base stations; base site controllers; associated software and services; mobility soft switching; application platforms; and third-party switching for CDMA, GSM, iDEN, and 3G technologies. It also offers embedded communications computing platforms; fiber-to-the-premise and fiber-to-the-node transmission systems supporting high-speed data, video, and voice; and wireless broadband systems. Motorola's Government and Enterprise Mobility Solutions segment provides analog and digital two-way radio, voice, and data communications products and systems to public-safety, government, utility, transportation, and other markets, as well as offers integrated information management, mobile, and biometric applications and services. It also offers automotive electronics systems and telematics systems. Its Connected Home Solutions segment offers digital systems and set-top terminals for cable TV, Internet protocol video and broadcast networks; cable modems and cable modem termination systems, and IP-based telephony products; hybrid fiber coaxial network transmission systems used by cable TV operators; digital satellite TV systems; direct-to-home satellite networks and private network, and advanced video communication products. We own an approximate 3% equity interest in Motorola.

Competition

Our businesses that engage in electronic retail compete with traditional offline and online retailers ranging from large department stores to specialty shops, other electronic retailers, direct marketing retailers, such as mail order and catalog companies, and discount retailers. QVC and IAC's subsidiary Home Shopping Network, compete for access to customers and audience share with other conventional forms of entertainment and content. Provide Commerce competes with online floral providers such as 1-800-FLOWERS and Hallmark Flowers, floral wire services such as FTD and Teleflora, online meat providers, such as Omaha Steaks Company and specialty catalog companies, such as Harry & David. We believe that the principal competitive factors in the markets in which our electronic commerce businesses compete are high-quality products, freshness, brand recognition, selection, convenience, price, website performance, customer service and accuracy of order shipment.

Our businesses that distribute programming for cable and satellite television compete with other programmers for distribution on a limited number of channels. Increasing concentration in the multichannel video distribution industry could adversely affect the programming companies in which we have interests by reducing the number of distributors to whom they sell their programming, subjecting more of their programming sales to volume discounts and increasing the distributors' bargaining power in negotiating new affiliation agreements. Once distribution is obtained, the programming services of our programming businesses compete for viewers and advertisers with other cable and off-air broadcast television programming services as well as with other entertainment media, including home video, pay-per-view services, online activities, movies and other forms of news, information and entertainment. Our programming businesses also compete for creative talent and programming content. In addition, SEG relies on third parties for all of its programming content whereas SEG's competitors produce some of their own programming content. We believe that the principal competitive factors for our programming businesses are prices charged for programming, the quantity, quality and variety of the programming offered and the effectiveness of marketing efforts.

Our businesses that offer services through the Internet compete with businesses that offer their own services directly through the Internet as well as with online and offline providers of similar services including providers of ticketing services, lending services, travel agencies, operators of destination search sites and search-centric portals, search technology providers, online advertising networks, site aggregation companies, media, telecommunications and cable companies, Internet service providers and

niche competitors that focus on a specific category or geography. Expedia also competes with travel planning service providers, including aggregator sites that offer inventory from multiple suppliers, such as airline sites, Orbitz, Travelocity and Priceline, as well as with American Express and Navigant International, providers of corporate travel services. We believe that the principal competitive factors in the markets in which our businesses that offer services through the Internet engage are selection, price, availability of inventory, convenience, brand recognition, accessibility, customer service, reliability, website performance and ease of use.

The businesses of providing software and related technologies, content and applications and professional services for interactive and enhanced television are highly competitive and rapidly changing. The interactive television technology companies with which OpenTV competes include NDS Group plc., Microsoft Corporation and Scientific Atlanta. Companies that develop interactive television content and applications include dedicated applications providers, interactive television technology companies, and independent third parties that develop and provide applications for middleware platforms. Competition is also faced from media companies and network operators that have publicly announced interactive television initiatives. We expect competition in the interactive content and applications area to intensify as the general market for interactive television services further develops, particularly in the case of independent third parties that have the ability to develop applications for middleware platforms at relatively modest expense through the use of applications development tools.

There are numerous providers of in-room entertainment services to the hotel industry. Market participants include, but are not limited to, (i) other full service in-room providers, (ii) cable television companies, (iii) direct broadcast satellite services, (iv) television networks and programmers, (v) Internet service providers, (vi) broadband connectivity companies, (vii) other telecommunications companies and (viii) certain hotels. In addition, On Command's services compete for a guest's time and entertainment resources with other forms of entertainment and leisure activities. On Command anticipates that it will continue to face substantial competition from traditional as well as new competitors.

Regulatory Matters

Programming and Interactive Television Services

In the United States, the FCC regulates the providers of satellite communications services and facilities for the transmission of programming services, the cable television systems that carry such services, and, to some extent, the availability of the programming services themselves through its regulation of program licensing. Cable television systems in the United States are also regulated by municipalities or other state and local government authorities. Cable television systems are currently subject to federal rate regulation on the provision of basic service, and continued rate regulation or other franchise conditions could place downward pressure on the fees cable television companies are willing or able to pay for programming services in which we have interests. Regulatory carriage requirements also could adversely affect the number of channels available to carry the programming services in which we have an interest.

Regulation of Program Licensing. The Cable Television Consumer Protection and Competition Act of 1992 (the 1992 Cable Act) directed the FCC to promulgate regulations regarding the sale and acquisition of cable programming between multi-channel video programming distributors (including cable operators) and satellite-delivered programming services in which a cable operator has an attributable interest. The legislation and the implementing regulations adopted by the FCC preclude virtually all exclusive programming contracts between cable operators and satellite programmers affiliated with any cable operator (unless the FCC first determines the contract serves the public interest) and generally prohibit a cable operator that has an attributable interest in a satellite programmer from improperly influencing the terms and conditions of sale to unaffiliated multi-channel

video programming distributors. Further, the 1992 Cable Act requires that such affiliated programmers make their programming services available to cable operators and competing multi-channel video programming distributors such as multi-channel multi-point distribution systems, which we refer to as MMDS, and direct broadcast satellite distributors on terms and conditions that do not unfairly discriminate among distributors. The Telecommunications Act of 1996 extended these rules to programming services in which telephone companies and other common carriers have attributable ownership interests. The FCC revised its program licensing rules by implementing a damages remedy in situations where the defendant knowingly violates the regulations and by establishing a timeline for the resolution of complaints, among other things. Although we no longer own Liberty Cablevision of Puerto Rico Ltd. ("LCPR"), FCC rules continue to attribute an ownership interest in LCPR to us, thereby subjecting us and satellite-delivered programming services in which we have an interest to the program access rules.

Regulation of Carriage of Programming. Under the 1992 Cable Act, the FCC has adopted regulations prohibiting cable operators from requiring a financial interest in a programming service as a condition to carriage of such service, coercing exclusive rights in a programming service or favoring affiliated programmers so as to restrain unreasonably the ability of unaffiliated programmers to compete.

Regulation of Ownership. The 1992 Cable Act required the FCC, among other things, (1) to prescribe rules and regulations establishing reasonable limits on the number of channels on a cable system that will be allowed to carry programming in which the owner of such cable system has an attributable interest and (2) to consider the necessity and appropriateness of imposing limitations on the degree to which multi-channel video programming distributors (including cable operators) may engage in the creation or production of video programming. In 1993, the FCC adopted regulations limiting carriage by a cable operator of national programming services in which that operator holds an attributable interest to 40% of the first 75 activated channels on each of the cable operator's systems. The rules provided for the use of two additional channels or a 45% limit, whichever is greater, provided that the additional channels carried minority-controlled programming services. The regulations also grandfathered existing carriage arrangements that exceeded the channel limits, but required new channel capacity to be devoted to unaffiliated programming services until the system achieved compliance with the regulations. These channel occupancy limits applied only up to 75 activated channels on the cable system, and the rules did not apply to local or regional programming services. However, in 2001, the United States Court of Appeals for the District of Columbia Circuit found that the FCC had failed to justify adequately the channel occupancy limit, vacated the FCC's decision and remanded the rule to the FCC for further consideration. In response to the Court's decision, the FCC issued further notices of proposed rulemaking in 2001 and on May 17, 2005 to consider channel occupancy limitations. Even if these rules were readopted by the FCC, they would have little impact on programming companies in which we have interests based upon our current attributable ownership interests in cable systems.

In its 2001 decision, the Court of Appeals also vacated the FCC's rule imposing a thirty percent limit on the number of subscribers served by systems nationwide in which a multiple system operator can have an attributable ownership interest. The FCC presently is conducting a rulemaking regarding this ownership limitation and its ownership attribution standards.

The FCC's rules also generally had prohibited common ownership of a cable system and broadcast television station with overlapping service areas. On February 19, 2002, the United States Court of Appeals for the District of Columbia Circuit held that the FCC's decision to retain the cable/broadcast cross-ownership rule was arbitrary and capricious and vacated the rule. The FCC did not seek Supreme Court review of this decision or initiate a new rulemaking proceeding. The FCC rules continue to prohibit common ownership of a cable system and MMDS with overlapping service areas.

Regulation of Carriage of Broadcast Stations. The 1992 Cable Act granted broadcasters a choice of must carry rights or retransmission consent rights. The rules adopted by the FCC generally provided for mandatory carriage by cable systems of all local full-power commercial television broadcast signals selecting must carry rights and, depending on a cable system's channel capacity, non-commercial television broadcast signals. Such statutorily mandated carriage of broadcast stations coupled with the provisions of the Cable Communications Policy Act of 1984, which require cable television systems with 36 or more "activated" channels to reserve a percentage of such channels for commercial use by unaffiliated third parties and permit franchise authorities to require the cable operator to provide channel capacity, equipment and facilities for public, educational and government access channels, could adversely affect some or substantially all of the programming companies in which we have interests by limiting the carriage of such services in cable systems with limited channel capacity. On January 18, 2001, the FCC adopted rules relating to the cable carriage of digital television signals. Among other things, the rules clarify that a digital-only television station can assert a right to analog or digital carriage on a cable system. The FCC initiated a further proceeding to determine whether television stations may assert rights to carriage of both analog and digital signals during the transition to digital television and to carriage of all digital signals. On February 10, 2005, the FCC denied mandatory dual carriage of a television station's analog and digital signals during the digital television transition and also denied mandatory carriage of all of a television station's digital signals, other than its "primary" signal. Television station owners have sought reconsideration of the FCC's decision and may seek judicial review or legislative change of the FCC's decision.

Closed Captioning and Video Description Regulation. The Telecommunications Act of 1996 also required the FCC to establish rules and an implementation schedule to ensure that video programming is fully accessible to the hearing impaired through closed captioning. The rules adopted by the FCC will require substantial closed captioning over an eight to ten year phase-in period, which began in 2000, with only limited exemptions. As a result, the programming companies in which we have interests are expected to incur significant additional costs for closed captioning.

A-La-Carte Proceeding. In 2004, the FCC's Media Bureau conducted a notice of inquiry proceeding regarding the feasibility of selling video programming services "a-la-carte", i.e. on an individual or small tier basis. The Media Bureau released a report on November 19, 2004, which concluded that a-la-carte sales of video programming services would not result in lower video programming costs for most consumers and that they would adversely affect video programming networks. On February 9, 2006, the Media Bureau released a new report which stated that the 2004 report was flawed and which concluded that a-la-carte sales could be in the best interests of consumers. Although the FCC cannot mandate a-la-carte sales, its endorsement of the concept could encourage Congress to consider proposals to mandate a-la-carte sales or otherwise seek to impose greater regulatory controls on how cable programming is sold. The programming companies that distribute their services in tiers or packages of programming services would experience decreased distribution if a-la-carte carriage were mandated.

Copyright Regulation. The programming companies in which we have interests must obtain any necessary music performance rights from the rights holders. These rights generally are controlled by the music performance rights organizations of the American Society of Composers, Authors and Publishers (ASCAP), Broadcast Music, Inc. (BMI) and the Society of European Stage Authors and Composers (SESAC), each with rights to the music of various artists. The programming companies in which we have interests generally have obtained the necessary rights through separate agreements with ASCAP, BMI and SESAC, which have negotiated agreements with some programmers that include new rate structures and may require retroactive rate increases. Certain of the programming companies also have obtained licenses for music performance rights outside the United States through various licensing agencies located in the foreign countries in which their services are distributed.

Satellites and Uplink. In general, authorization from the FCC must be obtained for the construction and operation of a communications satellite. The FCC authorizes utilization of satellite orbital slots assigned to the United States by the World Administrative Radio Conference. Such slots are finite in number, thus limiting the number of carriers that can provide satellite transponders and the number of transponders available for transmission of programming services. At present, however, there are numerous competing satellite service providers that make transponders available for video services to the cable industry. The FCC also regulates the earth stations uplinking to and/or downlinking from such satellites.

Internet Services

The Internet businesses in which we have interests are subject, both directly and indirectly, to various laws and governmental regulations. Certain of our subsidiaries engaged in the provision of goods and services over the Internet must comply with federal and state laws and regulations applicable to online communications and commerce. For example, the Children's Online Privacy Protection Act prohibits web sites from collecting personally identifiable information online from children under age 13 without parental consent and imposes a number of operational requirements. Certain email activities are subject to the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, commonly known as the CAN-SPAM Act. The CAN-SPAM Act regulates the sending of unsolicited commercial email by requiring the email sender, among other things, to comply with specific disclosure requirements and to provide an "opt-out" mechanism for recipients. Both of these laws include statutory penalties for non-compliance. Various states also have adopted laws regulating certain aspects of Internet communications. Goods sold over the Internet also must comply with traditional regulatory requirements, such as the Federal Trade Commission requirements regarding truthful and accurate claims. With regard to state and local taxes, legislation enacted by Congress in 2004 extended the moratorium on such taxes on Internet access and commerce until November 1, 2007.

Congress and individual states may consider additional online privacy legislation. Other Internet-related laws and regulations enacted in the future may cover issues such as defamatory speech, copyright infringement, pricing and characteristics and quality of products and services. The future adoption of such laws or regulations may slow the growth of commercial online services and the Internet, which could in turn cause a decline in the demand for the services and products of the Internet companies in which we have interests and increase such companies' costs of doing business or otherwise have an adverse effect on their businesses, operating results and financial conditions. Moreover, the applicability to commercial online services and the Internet of existing laws governing issues such as property ownership, libel, personal privacy and taxation is uncertain and could expose these companies to substantial liability.

Other Regulation

We also have significant ownership interests on a cost basis in other entities, such as News Corporation and Sprint Nextel Corporation, which are extensively regulated. For example, the broadcast stations owned and the direct broadcast satellite service controlled by News Corp. are subject to a variety of FCC regulations. Sprint Nextel is subject not only to federal regulation but also to regulation in varying degrees, depending on the jurisdiction, by state and local regulatory authorities.

Proposed Changes in Regulation

The regulation of programming services, cable television systems and satellite licensees is subject to the political process and has been in constant flux over the past decade. Further material changes in the law and regulatory requirements must be anticipated and there can be no assurance that our business will not be adversely affected by future legislation, new regulation or deregulation.

Properties

We own our corporate headquarters in Englewood, Colorado. Ownership of our corporate headquarters has been attributed to the Capital Group; however, we intend to allocate some of the costs of our corporate headquarters to the Interactive Group. All of our other real or personal property is owned or leased through our subsidiaries and business affiliates.

Interactive Group

QVC owns its corporate headquarters and operations center in West Chester, Pennsylvania. It also owns call centers in San Antonio, Texas, Port St. Lucie, Florida, Chesapeake, Virginia and Bochum, Germany, as well as a call center and warehouse in Knowsley, United Kingdom. QVC owns a warehouse in Hucklehoven, Germany and distribution centers in Lancaster, Pennsylvania, Suffolk, Virginia and Rocky Mount, North Carolina. To supplement the facilities it owns, QVC also leases various facilities in the United States, the United Kingdom, Germany and Japan for retail outlet stores, office space, warehouse space and call center locations.

Capital Group

On Command leases its corporate headquarters in Denver, Colorado. It also leases 120,000 square feet of light manufacturing and storage space in Denver, Colorado and 42,000 square feet of office space in San Jose, California. On Command also has a number of small leased facilities in the United States, Canada and Mexico.

SEG owns its corporate headquarters in Englewood, Colorado. In addition, SEG leases office space for its business affairs and sales staff at five locations around the United States.

Other Subsidiaries and Affiliates

Our other subsidiaries and business affiliates own or lease the fixed assets necessary for the operation of their respective businesses, including office space, transponder space, headends, cable television and telecommunications distribution equipment, telecommunications switches and customer equipment (including converter boxes). Our management believes that our current facilities are suitable and adequate for our business operations for the foreseeable future.

Employees

As of December 31, 2005, we had approximately 60 corporate employees, most of whom are expected to perform work for and on behalf of both the Interactive Group and the Capital Group, and our consolidated subsidiaries had an aggregate of approximately 13,600 employees. We believe that our employee relations are good.

ANNEX B: FINANCIAL INFORMATION

PART 1 HISTORICAL CONSOLIDATED FINANCIAL STATEMENTS

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Liberty Media Corporation	
Audited Consolidated Financial Statements for the years ended December 31, 2005, 2004 and 2003	B-1-2
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Media Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Media Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the internal control over financial reporting of Liberty Media Corporation as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 7, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Denver, Colorado
March 7, 2006

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LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

	2005	2004
	amounts in millions	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,946	1,387
Trade and other receivables, net	1,106	1,035
Inventory, net	719	712
Program rights	599	520
Derivative instruments (note 7)	661	827
Other current assets	129	123
	<u>5,160</u>	<u>4,604</u>
Investments in available-for-sale securities and other cost investments, including \$1,581 million and \$907 million pledged as collateral for share borrowing arrangements (note 6)	18,497	21,847
Long-term derivative instruments (note 7)	1,123	1,601
Investments in affiliates, accounted for using the equity method (note 8)	1,908	784
Property and equipment, at cost	1,726	1,637
Accumulated depreciation	(595)	(504)
	<u>1,131</u>	<u>1,133</u>
Intangible assets not subject to amortization (note 2):		
Goodwill	6,953	6,938
Trademarks	2,385	2,385
	<u>9,338</u>	<u>9,323</u>
Intangible assets subject to amortization, net (note 2)	4,028	4,436
Other assets, at cost, net of accumulated amortization	767	765
Assets of discontinued operations (note 5)		5,716
	<u>\$ 41,952</u>	<u>50,209</u>

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

	2005	2004
	amounts in millions	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 516	424
Accrued liabilities	826	788
Accrued stock compensation	133	235
Program rights payable	191	200
Derivative instruments (note 7)	1,939	1,179
Current portion of debt (note 9)	1,379	10
Other current liabilities	302	303
	<u>5,286</u>	<u>3,139</u>
Total current liabilities	5,286	3,139
Long-term debt (note 9)	6,371	8,566
Long-term derivative instruments (note 7)	1,087	1,812
Deferred income tax liabilities (note 10)	8,728	9,701
Other liabilities	1,070	801
Liabilities of discontinued operations (note 5)		1,305
	<u>22,542</u>	<u>25,324</u>
Total liabilities	22,542	25,324
Minority interests in equity of subsidiaries	290	299
Stockholders' equity (note 11):		
Preferred stock, \$.01 par value. Authorized 50,000,000 shares; no shares issued		
Series A common stock \$.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 2,681,745,985 shares at December 31, 2005 and 2,678,895,158 shares at December 31, 2004	27	27
Series B common stock \$.01 par value. Authorized 400,000,000 shares; issued 131,062,825 shares at December 31, 2005 and 2004	1	1
Additional paid-in capital	29,098	33,765
Accumulated other comprehensive earnings, net of taxes ("AOCE") (note 15)	3,421	4,215
AOCE of discontinued operations		12
Unearned compensation	(24)	(64)
Accumulated deficit	(13,278)	(13,245)
	<u>19,245</u>	<u>24,711</u>
Series B common stock held in treasury, at cost (10,000,000 shares at December 31, 2005 and 2004)	(125)	(125)
	<u>19,120</u>	<u>24,586</u>
Total stockholders' equity	19,120	24,586
Commitments and contingencies (note 17)		
Total liabilities and stockholders' equity	\$ 41,952	50,209

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	amounts in millions, except per share amounts		
Revenue:			
Net sales from electronic retailing	\$ 6,501	5,687	1,973
Communications and programming services	1,459	1,364	1,257
	<u>7,960</u>	<u>7,051</u>	<u>3,230</u>
Operating costs and expenses:			
Cost of sales electronic retailing services	4,112	3,594	1,258
Operating	1,608	1,356	860
Selling, general and administrative ("SG&A")	652	662	387
Stock compensation SG&A (note 2)	52	98	(91)
Litigation settlement		(42)	
Depreciation	162	172	127
Amortization	477	486	267
Impairment of long-lived assets (note 2)			1,362
	<u>7,063</u>	<u>6,326</u>	<u>4,170</u>
Operating income (loss)	897	725	(940)
Other income (expense):			
Interest expense	(623)	(615)	(508)
Dividend and interest income	144	131	164
Share of earnings of affiliates, net (note 8)	13	15	7
Realized and unrealized gains (losses) on derivative instruments, net (note 7)	257	(1,284)	(661)
Gains (losses) on dispositions, net (notes 6, 11 and 15)	(365)	1,406	1,126
Nontemporary declines in fair value of investments (note 6)	(449)	(129)	(22)
Other, net	(38)	(25)	(53)
	<u>(1,061)</u>	<u>(501)</u>	<u>53</u>
Earnings (loss) from continuing operations before income taxes and minority interest	(164)	224	(887)
Income tax benefit (expense) (note 10)	141	(119)	(342)
Minority interests in earnings of subsidiaries	(41)	(5)	
	<u>(64)</u>	<u>100</u>	<u>(1,229)</u>
Earnings (loss) from discontinued operations, net of taxes (note 5)	31	(54)	7
	<u>(33)</u>	<u>46</u>	<u>(1,222)</u>
Net earnings (loss)	\$ (33)	46	(1,222)
Earnings (loss) per common share (note 2):			
Basic and diluted earnings (loss) from continuing operations	\$ (.02)	.04	(.44)
Discontinued operations	.01	(.02)	
	<u>.01</u>	<u>(.02)</u>	<u>(.44)</u>

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	<u>2005</u>	<u>2004</u>	<u>2003</u>
Basic and diluted net earnings (loss)	\$ (.01)	.02	(.44)
Weighted average number of common shares outstanding	2,795	2,856	2,748

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

Years ended December 31, 2005, 2004 and 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	amounts in millions		
Net earnings (loss)	\$ (33)	46	(1,222)
Other comprehensive earnings (loss), net of taxes (note 15):			
Foreign currency translation adjustments	(5)	23	35
Recognition of previously unrealized foreign currency translation losses	312		
Unrealized holding gains (losses) arising during the period	(1,121)	1,490	3,341
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	217	(488)	(628)
Reclass unrealized gain on available-for-sale security to equity method investment	(197)		
Other comprehensive earnings (loss) from discontinued operations (note 5)	(7)	(55)	227
Other comprehensive earnings (loss)	(801)	970	2,975
Comprehensive earnings (loss)	\$ (834)	1,016	1,753

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	amounts in millions (see note 3)		
Cash flows from operating activities:			
Net earnings (loss)	\$ (33)	46	(1,222)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:			
Loss (earnings) from discontinued operations	(31)	54	(7)
Depreciation and amortization	639	658	394
Impairment of long-lived assets			1,362
Stock compensation	52	98	(91)
Payments of stock compensation	(103)	(10)	(360)
Noncash interest expense	101	96	75
Share of earnings of affiliates, net	(13)	(15)	(7)
Realized and unrealized losses (gains) on derivative instruments, net	(257)	1,284	661
Losses (gains) on disposition of assets, net	365	(1,406)	(1,126)
Nontemporary decline in fair value of investments	449	129	22
Minority interests in earnings of subsidiaries	41	5	
Deferred income tax expense (benefit)	(405)	(233)	269
Other noncash charges	42	21	70
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions:			
Current assets	(184)	(520)	(347)
Payables and other current liabilities	447	623	176
	1,110	830	(131)
Cash flows from investing activities:			
Cash proceeds from dispositions	63	479	2,443
Premium proceeds from origination of derivatives	473	193	763
Net proceeds from settlement of derivatives	461	322	1,172
Investments in and loans to cost and equity investees	(24)	(960)	(2,557)
Cash paid for acquisitions, net of cash acquired	(5)	(93)	(711)
Capital expended for property and equipment	(233)	(177)	(151)
Net sales (purchases) of short term investments	(85)	272	95
Repayments of notes receivable from LMI		117	
Other investing activities, net	(15)	(14)	9
	635	139	1,063
Cash flows from financing activities:			
Borrowings of debt	861		4,152
Repayments of debt	(1,801)	(1,006)	(3,073)
Purchases of Liberty Series A common stock		(547)	(437)
Repurchases of subsidiary common stock	(95)	(171)	
Proceeds from issuance of common stock			141
Other financing activities, net	100	37	(42)
	(935)	(1,687)	741
Effect of foreign currency exchange rates on cash	(45)	3	18
Net cash provided to discontinued operations (revised, see note 3):			

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	2005	2004	2003
	<u> </u>	<u> </u>	<u> </u>
Cash provided by operating activities	31	216	101
Cash used by investing activities	(47)	(247)	(536)
Cash provided (used) by financing activities	996	(430)	(430)
Change in available cash held by discontinued operations	(190)	(1,829)	(10)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided to discontinued operations	(206)	(864)	(875)
	<u> </u>	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	559	(1,579)	816
Cash and cash equivalents at beginning of year	1,387	2,966	2,150
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end of year	\$ 1,946	1,387	2,966
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2005, 2004 and 2003

	Common stock		Additional paid-in capital	AOCE	AOCE from discontinued operations	Unearned compensation	Accumulated deficit	Treasury stock	Total stockholders' equity
	Preferred stock	Series A							
amounts in millions									
Balance at January 1, 2003	\$	25	2	36,498	493	(267)	(12,069)		24,682
Net loss							(1,222)		(1,222)
Other comprehensive earnings				2,748	227				2,975
Issuance of Series A common stock for acquisitions		2		2,654					2,656
Issuance of Series A common stock for cash				141					141
Purchases of Series A common stock				(437)					(437)
Issuance of restricted stock				102		(102)			
Amortization of deferred compensation						4			4
Series A common stock put options, net of cash received				37					37
Gain in connection with the issuance of stock of a subsidiary, net of taxes				6					6
Balance at December 31, 2003		27	2	39,001	3,241	(40)	(98)	(13,291)	28,842
Net earnings							46		46
Other comprehensive earnings (loss)				1,025	(55)				970
Issuance of Series A common stock for acquisitions				152					152
Issuance of Series A common stock in exchange for Series B common stock (note 11)		1	(1)	125				(125)	
Acquisition of Series A common stock (note 11)		(1)		(1,016)					(1,017)
Amortization of deferred compensation						31			31
Distribution to stockholders for spin off of Liberty Media International ("LMI") (note 5)				(4,512)	(51)	107			(4,456)
Stock compensation for Liberty options held by LMI employees (note 13)				(4)					(4)
Stock compensation for LMI options held by Liberty employees (note 13)				17					17
Other				2		3			5
Balance at December 31, 2004		27	1	33,765	4,215	12	(64)	(13,245)	24,586
Net loss							(33)		(33)
Other comprehensive loss				(794)	(7)				(801)

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	Common stock			AOCE from discontinued operations					
Issuance of Series A common stock for investment in available-for-sale security			14			14			
Amortization of deferred compensation					38	38			
Distribution to stockholders for spin off of Discovery Holding Company ("DHC") (note 5)			(4,609)		(5)	(4,614)			
Losses in connection with issuances of stock by subsidiaries and affiliates, net of taxes			(22)			(22)			
Issuance of common stock upon exercise of stock options			10			10			
Stock compensation for Liberty options held by LMI employees (note 13)			4			4			
Stock compensation for LMI options held by Liberty employees (note 13)			(4)			(4)			
AT&T tax sharing agreement adjustments (note 10)			(40)			(40)			
Adjustment of spin off of LMI			(28)			(28)			
Other			8		2	10			
Balance at December 31, 2005	\$	27	1	29,098	3,421	(24)	(13,278)	(125)	19,120

See accompanying notes to consolidated financial statements.

The Company records a reserve for obsolete inventory as a percent of gross inventory based on historical experience. A summary of activity in the reserve for obsolete inventory account is as follows:

	Balance beginning of year	Additions		Deductions- write-offs	Balance end of year
		Charged to expense	Acquisitions		
amounts in millions					
2005	\$ 88	75		(73)	90
2004	\$ 93	54		(59)	88
2003	\$	19	93	(19)	93

Program Rights

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

Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale ("AFS") and are carried at fair value. Unrealized holding gains and losses on AFS Securities are carried net of taxes as a component of accumulated other comprehensive earnings in stockholders' equity. Realized gains and losses are determined on an average cost basis. Other investments in which the Company's ownership interest is less than 20% and are not considered marketable securities are carried at cost.

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received. Losses are limited to the extent of the Company's investment in, advances to and commitments for the investee. The Company's share of net earnings or loss of affiliates also includes any other-than-temporary declines in fair value recognized during the period.

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

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary ("nontemporary"). The primary factors the Company considers in its determination are the length of time that the fair value of the investment is below the Company's carrying value; and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be nontemporary, the cost basis of the security is written down to fair value. In situations where the fair

value of an investment is not evident due to a lack of a public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. The Company's assessment of the foregoing factors involves a high degree of judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. Writedowns for cost investments and AFS Securities are included in the consolidated statements of operations as nontemporary declines in fair values of investments. Writedowns for equity method investments are included in share of earnings (losses) of affiliates.

Derivative Instruments and Hedging Activities

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

executes its derivative instruments with several different counterparties, and

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

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

Liberty accounts for its derivatives pursuant to Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" ("Statement 133"). All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. At December 31, 2005 and for the three years then ended none of the Company's derivatives were designated as hedges.

The fair value of derivative instruments is estimated using third party estimates or the Black-Scholes model. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. The Company obtains volatility rates from independent sources based on the expected volatility of the underlying security over the term of the derivative instrument. The volatility assumption is evaluated annually to determine if it should be adjusted, or more often if there are indications that it should be adjusted. A discount rate is obtained at the inception of the derivative instrument and updated each reporting period based on the Company's estimate of the discount rate at which it could currently settle

the derivative instrument. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of derivative instruments may differ materially from these estimates.

Property and Equipment

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

Intangible Assets

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

Statement 142 requires the Company to perform an annual assessment of whether there is an indication that goodwill is impaired. To accomplish this, the Company identifies its reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. Statement 142 requires the Company to consider equity method affiliates as separate reporting units. As a result, a portion of the Company's enterprise-level goodwill balance is allocated to various reporting units which include a single equity method investment as its only asset. This allocation is performed for goodwill impairment testing purposes only and does not change the reported carrying value of the investment. However, to the extent that all or a portion of an equity method investment which is part of a reporting unit containing allocated goodwill is disposed of in the future, the allocated portion of goodwill will be relieved and included in the calculation of the gain or loss on disposal.

The Company determines the fair value of its reporting units using independent appraisals, public trading prices and other means. The Company then compares the fair value of each reporting unit to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, the Company compares the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation, to its carrying amount, and records an impairment charge to the extent the carrying amount exceeds the implied fair value.

Goodwill

Changes in the carrying amount of goodwill for the year ended December 31, 2005 are as follows:

	QVC, Inc.	Starz Entertainment Group LLC	Other(3)	Total
	amounts in millions			
Balance at January 1, 2005	\$ 4,048	1,383	1,507	6,938
Acquisitions(1)			10	10
Foreign currency translation adjustments	23			23
Other(2)	(14)		(4)	(18)
Balance at December 31, 2005	\$ 4,057	1,383	1,513	6,953

- (1) During the year ended December 31, 2005, subsidiaries of Liberty completed several small acquisitions. In connection with these acquisitions, Liberty recorded additional goodwill of \$10 million, which represents the excess of the purchase price over the estimated fair value of tangible and identifiable intangible assets acquired.
- (2) Other activity for QVC, Inc. ("QVC") relates to (1) the reversal of income tax reserves recorded when Liberty purchased a controlling interest in QVC and (2) the repurchase of QVC stock held by employees of QVC. The differences between the carrying value of the minority interest acquired and the purchase price is recorded as goodwill.
- (3) As noted above, the Company's enterprise-level goodwill of \$1,371 million is allocable to reporting units, whether they are consolidated subsidiaries or equity method investments. Total enterprise-level goodwill at December 31, 2005, which is included in Other, is allocated as follows (amounts in millions).

Entity	Allocable goodwill
QVC	\$ 1,216
Courtroom Television Network, LLC ("Court TV")	124
GSN, LLC ("GSN")	17
Other	14
	\$ 1,371

Starz Entertainment Group LLC ("SEG") obtained an independent third party valuation in connection with its 2003 annual year-end evaluation of the recoverability of its goodwill. The result of this valuation, which was based on a discounted cash flow analysis of projections prepared by the management of SEG, indicated that the fair value of this reporting unit was less than its carrying value. This reporting unit fair value was then used to calculate an implied value of the goodwill (including \$1,195 million of allocated enterprise-level goodwill) related to SEG. The \$1,352 million excess of the carrying amount of the goodwill over its implied value was recorded as an impairment charge in the fourth quarter of 2003.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are comprised of the following:

	December 31, 2005			December 31, 2004		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
amounts in millions						
Distribution rights	\$ 2,628	(788)	1,840	2,618	(589)	2,029
Customer relationships	2,365	(398)	1,967	2,347	(224)	2,123
Other	653	(432)	221	622	(338)	284
Total	\$ 5,646	(1,618)	4,028	5,587	(1,151)	4,436

Amortization of intangible assets with finite useful lives was \$477 million, \$486 million and \$267 million for the years ended December 31, 2005, 2004 and 2003, 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):

2006	\$ 451
2007	\$ 410
2008	\$ 376
2009	\$ 343
2010	\$ 333

Impairment of Long-lived Assets

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

Minority Interests

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

Foreign Currency Translation

The functional currency of the Company is the United States ("U.S.") dollar. The functional currency of the Company's foreign operations generally is the applicable local currency for each foreign

subsidiary and foreign equity method investee. Assets and liabilities of foreign subsidiaries and foreign equity investees are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations and the Company's share of the results of operations of its foreign equity affiliates are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in stockholders' equity.

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

Revenue Recognition

Revenue is recognized as follows:

Revenue from electronic retail sales is recognized at the time of shipment to customers. An allowance for returned merchandise is provided as a percentage of sales based on historical experience. The total reduction in sales due to returns for the years ended December 31, 2005 and 2004 and the four months ended December 31, 2003 aggregated \$1,287 million, \$1,089 million and \$340 million, respectively.

Programming revenue is recognized in the period during which programming is provided, pursuant to affiliation agreements.

Revenue from sales and licensing of software and related service and maintenance is recognized pursuant to Statement of Position No. 97-2, "*Software Revenue Recognition*." For multiple element contracts with vendor specific objective evidence, the Company recognizes revenue for each specific element when the earnings process is complete. If vendor specific objective evidence does not exist, revenue is deferred and recognized on a straight-line basis over the term of the maintenance period.

Revenue from content distribution is recognized in the period that services are rendered.

Cost of Sales Electronic Retailing

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

Advertising Costs

Advertising costs generally are expensed as incurred. Advertising expense aggregated \$46 million, \$49 million and \$19 million for the years ended December 31, 2005, 2004 and 2003, respectively. Co-operative marketing costs are recognized as advertising expense to the extent an identifiable benefit is received and fair value of the benefit can be reasonably measured. Otherwise, such costs are recorded as a reduction of revenue.

Stock-Based Compensation

As more fully described in note 13, the Company has granted to its employees options, stock appreciation rights ("SARs") and options with tandem SARs to purchase shares of Liberty Series A and Series B common stock. The Company accounts for these grants pursuant to the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"). Under these provisions, no compensation expense is recognized for fixed plan awards because the exercise price is equal to the market price of the underlying common stock on the date of grant. Compensation for variable plan awards is recognized based upon the percentage of the options that are vested and the difference between the market price of the underlying common stock and the exercise price of the options at the balance sheet date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("Statement 123") to its options. Compensation expense for SARs and options with tandem SARs is the same under APB Opinion No. 25 and Statement 123. Accordingly, no pro forma adjustment for such awards is included in the following table.

	Years ended December 31,		
	2005	2004	2003
	amounts in millions, except per share amounts		
Earnings (loss) from continuing operations	\$ (64)	100	(1,229)
Add stock compensation as determined under the intrinsic value method, net of taxes	2	2	2
Deduct stock compensation as determined under the fair value method, net of taxes	(47)	(44)	(49)
Pro forma earnings (loss) from continuing operations	\$ (109)	58	(1,276)
Basic and diluted earnings (loss) from continuing operations per share:			
As reported	\$ (.02)	.04	(.44)
Pro forma	\$ (.04)	.02	(.46)

Income Taxes

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

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented. The basic EPS calculation is based on 2,795 million and 2,856 million weighted average shares outstanding for the years ended December 31, 2005 and 2004, respectively. The diluted EPS calculation for 2005 and 2004 includes 13 million and 14 million potential common shares, respectively. However, due to the relative insignificance of these dilutive securities, their inclusion does not impact the EPS amount as reported in the accompanying consolidated statement of operations. Excluded from diluted earnings per share for the years ended December 31, 2005, 2004 and 2003, are 71 million, 72 million and 84 million potential common shares because their inclusion would be anti-dilutive.

Reclassifications

Certain prior period amounts have been reclassified for comparability with the 2005 presentation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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) the fair value of its derivative instruments and (iv) its assessment of nontemporary declines in value of its investments to be its most significant estimates.

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

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payments*" ("Statement 123R"). Statement 123R, which is a revision of Statement 123 and supersedes APB Opinion No. 25, establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on transactions in which an entity obtains employee services. Statement 123R generally requires companies to measure the cost of employee services received in exchange for an award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the award, and to recognize that cost over the period during which the employee is required to provide service (usually the vesting period of the award). Statement 123R also requires companies to

measure the cost of employee services received in exchange for an award of liability instruments (such as stock appreciation rights that will be settled in cash) based on the current fair value of the award, and to remeasure the fair value of the award at each reporting date.

Public companies are required to adopt Statement 123R as of the beginning of the first fiscal year that begins after June 15, 2005, or January 1, 2006 for calendar-year companies such as Liberty. The provisions of Statement 123R will affect the accounting for all awards granted, modified, repurchased or cancelled after December 31, 2005. The accounting for awards granted, but not vested, prior to January 1, 2006 will also be impacted. The provisions of Statement 123R allow companies to adopt the standard on a prospective basis or to restate all periods for which Statement 123 was effective. Liberty expects to adopt Statement 123R on a prospective basis, and will include in its financial statements for periods that begin after December 31, 2005 pro forma information as though the standard had been adopted for all periods presented.

Liberty currently estimates that upon adoption of Statement 123R, it will be required to record a \$125 million charge to earnings (before related income taxes) as the cumulative effect of a change in accounting. Such charge primarily represents the aggregate differences between the fair value and intrinsic value of the Company's liability awards. In addition, at December 31, 2005, the Company has approximately \$65 million of unamortized stock-based compensation related to equity awards granted prior to January 1, 2006 that will be amortized into its statement of operations over approximately 4 years.

(3) *Supplemental Disclosures to Consolidated Statements of Cash Flows*

We have revised our 2004 and 2003 statements of cash flows to separately disclose the operating, investing and financing portions of the cash flows attributable to our discontinued operations. We previously had reported these amounts on a combined basis.

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Cash paid for acquisitions:			
Fair value of assets acquired	\$ 18	85	9,996
Net liabilities assumed		(2)	(968)
Long-term debt issued			(4,000)
Deferred tax liability			(1,612)
Minority interest	(13)	10	(49)
Common stock issued			(2,656)
	5	93	711
Cash paid for interest	\$ 477	515	400
Cash paid for income taxes	\$ 162	50	56

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(4) Acquisition of Controlling Interest in QVC, Inc.

On September 17, 2003, Liberty completed its acquisition of Comcast Corporation's ("Comcast") approximate 56.5% ownership interest in QVC for an aggregate purchase price of approximately \$7.9 billion. QVC 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. Prior to the closing, Liberty owned approximately 41.7% of QVC. Subsequent to the closing, Liberty owned approximately 98% of QVC's outstanding shares, and the remaining shares of QVC were held by members of the QVC management team.

Liberty's purchase price for QVC was comprised of 217.7 million shares of Liberty's Series A common stock valued, for accounting purposes, at \$2,555 million, Floating Rate Senior Notes due 2006 in an aggregate principal amount of \$4,000 million and approximately \$1,358 million in cash (including acquisition costs). The foregoing value of the Series A common stock issued was based on the average closing price for such stock for the five days surrounding July 3, 2003, which was the date that Liberty announced that it had reached an agreement with Comcast to acquire Comcast's interest in QVC. Substantially all of the cash component of the purchase price was funded with the proceeds from the Company's issuance of its 3.50% Senior Notes due 2006 in the aggregate principal amount of \$1.35 billion.

Subsequent to the closing, QVC is a consolidated subsidiary of Liberty. For financial reporting purposes, the acquisition is deemed to have occurred on September 1, 2003, and since that date QVC's results of operations have been consolidated with Liberty's. Prior to its acquisition of Comcast's interest, Liberty accounted for its investment in QVC using the equity method of accounting. Liberty recorded the acquisition of QVC as a step acquisition, and accordingly, QVC's assets and liabilities were recorded at amounts equal to (1) 56.5% of estimated fair value at the date of acquisition plus (2) 43.5% of historical cost. The \$2,048 million excess of the purchase price over the estimated fair value of 56.5% of QVC's assets and liabilities combined with Liberty's historical equity method goodwill of \$1,848 million was recorded as goodwill. The excess of the purchase price for Comcast's interest in QVC over the estimated fair value of QVC's assets and liabilities is attributable to the following: (i) QVC's position as a market leader in its industry, (ii) QVC's ability to generate significant cash from operations and Liberty's ability to obtain access to such cash, and (iii) QVC's perceived significant international growth opportunities.

Liberty's total investment in QVC of \$10,717 million is comprised of \$2,804 million attributable to its historical equity method investment and \$7,913 million representing the purchase price for

Comcast's interest. This total investment has been allocated based on a third party appraisal to QVC's assets and liabilities as follows (amounts in millions):

Current assets, including cash and cash equivalents of \$632 million	\$ 1,764
Property and equipment	631
Intangible assets subject to amortization:	
Customer relationships(1)	2,336
Cable and satellite television distribution rights(1)	2,022
Intangible assets not subject to amortization:	
Trademarks	2,385
Goodwill	3,896
Other assets	269
Liabilities	(888)
Minority interest	(101)
Deferred income taxes	(1,597)
	\$ 10,717

- (1) Customer relationships are being amortized over 10-14 years. Cable and satellite television distribution rights are being amortized primarily over 14 years.

The following unaudited pro forma information for Liberty and its consolidated subsidiaries for the year ended December 31, 2003 was prepared assuming the acquisition of QVC occurred on January 1, 2003. These pro forma amounts are not necessarily indicative of operating results that would have occurred if the QVC acquisition had occurred on January 1, 2003 (amounts in millions, except per share amounts)

Revenue	\$ 6,145
Loss from continuing operations	\$ (1,182)
Net loss	\$ (1,175)
Loss per common share	\$ (.41)

(5) Discontinued Operations

Spin Off of Discovery Holding Company

On July 21, 2005 (the "DHC Spin Off Date"), Liberty completed the spin off (the "DHC Spin Off") of DHC to its shareholders. The DHC Spin Off was effected as a dividend by Liberty to holders of its Series A and Series B common stock of shares of DHC Series A and Series B common stock, respectively. Holders of Liberty common stock on July 15, 2005 received 0.10 of a share of DHC Series A common stock for each share of Liberty Series A common stock owned and 0.10 of a share of DHC Series B common stock for each share of Liberty Series B common stock owned. The DHC Spin Off did not involve the payment of any consideration by the holders of Liberty common stock and is intended to qualify as a tax-free transaction. At the time of the DHC Spin Off, DHC's assets were comprised of Liberty's 100% ownership interest in Ascent Media Group, LLC, Liberty's 50% ownership interest in Discovery Communications, Inc. and \$200 million in cash.

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

Liberty entered into certain agreements in order to govern certain of the ongoing relationships between Liberty and DHC after the DHC Spin Off and to provide for an orderly transition. These agreements include a Reorganization Agreement, a Facilities and Services Agreement, a Tax Sharing Agreement and a Short-Term Credit Facility.

The Reorganization Agreement provides for, among other things, the principal corporate transactions required to effect the DHC Spin Off and cross indemnities. Pursuant to the Facilities and Services Agreement, Liberty provides DHC with office space and certain general and administrative services including legal, tax, accounting, treasury, engineering and investor relations support. DHC reimburses Liberty for direct, out-of-pocket expenses incurred by Liberty in providing these services and for DHC's allocable portion of facilities costs and costs associated with any shared services or personnel.

Under the Tax Sharing Agreement, Liberty generally is responsible for U.S. federal, state and local and foreign income taxes owing with respect to consolidated returns which include both Liberty and DHC. DHC is responsible for all other taxes with respect to returns which include DHC, but do not include Liberty whether accruing before, on or after the DHC Spin Off. The Tax Sharing Agreement requires that DHC will not take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the DHC Spin Off from qualifying as a tax-free transaction. Moreover, DHC has indemnified Liberty for any loss resulting from such action or failure to act, if such action or failure to act precludes the DHC Spin Off from qualifying as a tax-free transaction.

Spin Off of Liberty Media International, Inc.

On June 7, 2004 (the "LMI Spin Off Date"), Liberty completed the spin off (the "LMI Spin Off") of its wholly-owned subsidiary, Liberty Media International, Inc., to its shareholders. Substantially all of the assets and businesses of LMI were attributed to Liberty's former International Group segment. In connection with the LMI Spin Off, holders of Liberty common stock on June 1, 2004 received 0.05 of a share of LMI Series A common stock for each share of Liberty Series A common stock owned and 0.05 of a share of LMI Series B common stock for each share of Liberty Series B common stock owned. The LMI Spin Off is intended to qualify as a tax-free spin off. For accounting purposes, the LMI Spin Off is deemed to have occurred on June 1, 2004, and no gain or loss was recognized by Liberty in connection with the LMI Spin Off due to the pro rata nature of the distribution.

In addition to the assets in Liberty's International Group operating segment, Liberty also contributed certain monetary assets to LMI in connection with the LMI Spin Off. These monetary assets consisted of \$50 million in cash, 5 million American Depository Shares for preferred, limited voting ordinary shares of News Corporation ("News Corp.") and related derivatives, and a 99.9% economic interest in 345,000 shares of preferred stock of ABC Family Worldwide, Inc.

Following the LMI Spin Off, LMI and Liberty operate independently, and neither had any stock ownership, beneficial or otherwise, in the other. In connection with the LMI Spin Off, LMI and Liberty entered into certain agreements in order to govern certain of the ongoing relationships between Liberty and LMI after the LMI Spin Off and to provide for an orderly transition. These agreements include a Reorganization Agreement and a Tax Sharing Agreement.

The Reorganization Agreement provided for, among other things, the principal corporate transactions required to effect the LMI Spin Off and cross indemnities.

Under the Tax Sharing Agreement, Liberty generally is responsible for U.S. federal, state and local and foreign income taxes owing with respect to consolidated returns which include both Liberty and

LMI. LMI is responsible for all other taxes with respect to returns which include LMI, but do not include Liberty whether accruing before, on or after the LMI Spin Off. The Tax Sharing Agreement requires that LMI will not take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the LMI Spin Off from qualifying as a tax-free transaction. Moreover, LMI has indemnified Liberty for any loss resulting from such action or failure to act, if such action or failure to act precludes the LMI Spin Off from qualifying as a tax-free transaction.

In the third quarter of 2005, Liberty filed its 2004 tax return and adjusted the amount of net operating loss and capital loss carryforwards allocated to LMI. Such adjustment resulted in an increase to Liberty's deferred income tax liabilities and a reduction of additional paid-in capital of \$28 million.

DMX Music

During the fourth quarter of 2004, the executive committee of the board of directors of Liberty approved a plan to dispose of Liberty's approximate 56% ownership interest in Maxide Acquisition, Inc. (d/b/a DMX Music, "DMX"). DMX was principally engaged in programming, distributing and marketing digital and analog music services to homes and businesses and was included in Liberty's former Networks Group segment. On February 14, 2005, DMX commenced proceedings under Chapter 11 of the United States Bankruptcy Code. DMX entered into an arrangement, subject to the approval by the Bankruptcy Court, to sell substantially all of its operating assets to an independent third party. On May 16, 2005, the Bankruptcy Court entered a written order approving the transaction, and the sale transaction was completed. As a result of the DMX Bankruptcy filing, Liberty deconsolidated DMX effective January 1, 2005. In connection with its decision to dispose of its ownership interest, Liberty recognized a \$23 million impairment loss to write down the carrying value of the net assets of DMX to their estimated fair value based upon the aforementioned arrangement to sell the assets. Such loss has been included in loss from discontinued operations in the accompanying consolidated financial statements for the year ended December 31, 2004.

The consolidated financial statements and accompanying notes of Liberty have been prepared reflecting DHC, LMI and DMX as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of DHC, LMI and DMX have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operations, statements of comprehensive earnings (loss) and statements of cash flows and have been reported separately in such consolidated financial statements.

Certain combined statement of operations information for DHC, LMI and DMX, which is included in earnings (loss) from discontinued operations, is as follows:

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Revenue	\$ 390	1,773	798
Earnings (loss) before income taxes and minority interests	\$ 48	(93)	37

Certain asset and liability amounts for DHC as of July 21, 2005 are as follows (amounts in millions):

Investment in Discovery	\$ 2,982
Goodwill	\$ 2,135
Deferred tax liabilities	\$ (1,060)

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

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

	December 31,	
	2005	2004
amounts in millions		
News Corp.	\$ 8,171	9,667
IAC/InterActiveCorp ("IAC")	1,960	3,824
Time Warner Inc. ("Time Warner") (1)	2,985	3,330
Sprint Nextel Corporation ("Sprint") (2)	2,162	2,342
Motorola, Inc. ("Motorola") (3)	1,672	1,273
Other AFS equity securities (4)	1,088	1,023
Other AFS debt securities (5)	389	304
Other cost investments and related receivables	79	87
	18,506	21,850
Less short-term investments	(9)	(3)
	\$ 18,497	21,847

(1) Includes \$158 million and \$176 million of shares pledged as collateral for share borrowing arrangements at December 31, 2005 and 2004, respectively.

(2) Includes \$94 million of shares pledged as collateral for share borrowing arrangements at December 31, 2005.

(3) Includes \$1,173 million and \$654 million of shares pledged as collateral for share borrowing arrangements at December 31, 2005 and 2004, respectively.

(4) Includes \$156 million and \$77 million of shares pledged as collateral for share borrowing arrangements at December 31, 2005 and 2004, respectively.

(5) At December 31, 2005, other AFS debt securities include \$371 million of investments in third-party marketable debt securities held by Liberty parent and \$18 million of such securities held by subsidiaries of Liberty. At December 31, 2004, such investments aggregated \$276 million and \$28 million, respectively.

News Corp.

Effective October 14, 2003, pursuant to a put/call arrangement with News Corp., Liberty acquired \$500 million of American Depository Shares ("ADSs") for News Corp. preferred limited voting shares at \$21.50 per ADS. In addition during 2003, Liberty sold certain of its News Corp. non-voting ADSs in the open market and purchased voting News Corp. ADSs in the open market. Liberty recognized a pre-tax gain of \$236 million on the sale of its non-voting ADSs. In early 2004, Liberty purchased additional voting ADSs and sold additional non-voting ADSs in the open market and recorded a pre-tax gain of \$134 million. On a net basis, Liberty effectively exchanged 21.2 million non-voting ADSs and \$693 million in cash for 48 million voting ADSs, taking into account proceeds from sales of, and unwinding of collars on, non-voting News Corp. ADSs.

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In the fourth quarter of 2004, News Corp. reincorporated as a U.S. corporation and effected a reverse stock split by exchanging one share of newly issued voting stock ("NWS") or non-voting stock

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("NWSA") for every two outstanding ADSs. In November 2004, Liberty entered into total return equity swaps with a financial institution with respect to 92 million shares of NWS. Pursuant to the terms of the swap, the financial institution acquired the 92 million shares of NWS for Liberty's benefit for a weighted average strike price of \$17.48. In December 2004, Liberty elected to terminate the swaps. In connection with such termination, Liberty delivered 86.9 million shares of NWSA with a fair market value of \$1,608 million in exchange for the 92 million shares of NWS with a fair market value of \$1,749 million. Accordingly, Liberty recognized a pre-tax gain on the swap transaction of \$141 million, which is included in realized and unrealized gains on financial instruments and a pre-tax gain on the exchange of NWSA for NWS of \$710 million, which is included in gains on dispositions. At December 31, 2005, Liberty has an approximate 16% economic interest and an approximate 19% voting interest in News Corp.

IAC/InterActiveCorp

Effective August 9, 2005, IAC completed the spin-off of its subsidiary, Expedia, Inc. ("Expedia"). Shareholders of IAC, including Liberty, received one share of Expedia for each share of IAC owned. Subsequent to the spin-off of Expedia, Liberty owns approximately 20% of the outstanding Expedia common stock representing a 52% voting interest. However, under existing governance arrangements, the Chairman of Expedia is currently entitled to vote Liberty's shares of Expedia, subject to certain limitations. As Liberty has appointed two out of nine members of Expedia's board of directors, it accounts for this investment using the equity method of accounting. Liberty allocated its pre-spin off carrying value in IAC between IAC and Expedia based on the relative trading prices of IAC and Expedia. Unrealized holding gains included in the carrying value allocated to Expedia were reversed as part of this allocation.

At December 31, 2005, Liberty owns approximately 22% of IAC common stock representing an approximate 54% voting interest. However, under existing governance arrangements, the Chairman of IAC is currently entitled to vote Liberty's shares, and due to the fact that Liberty has rights to appoint only two of thirteen members to the IAC board of directors, Liberty's ability to exert significant influence over IAC is limited at this time. Accordingly, Liberty accounts for this investment as an AFS security.

Other

During the fourth quarter of 2003, Liberty sold all of its shares of Vivendi Universal common stock in the open market for aggregate cash proceeds of \$838 million and recognized a \$262 million gain (before tax expense of \$102 million).

Nontemporary Declines in Fair Value of Investments

During the years ended December 31, 2005, 2004 and 2003, Liberty determined that certain of its AFS securities (including News Corp. in 2005) and cost investments experienced nontemporary declines in value. The primary factors considered by Liberty in determining the timing of the recognition for the majority of these impairments was the length of time the investments traded below Liberty's cost bases and the lack of near-term prospects for recovery in the stock prices. As a result, the carrying amounts of such investments were adjusted to their respective fair values based primarily on quoted market prices at the balance sheet date. These adjustments are reflected as nontemporary declines in fair value of investments in the consolidated statements of operations. The amount of nontemporary decline recognized for Liberty's News Corp. voting shares in 2005 was \$352 million.

Unrealized Holdings Gains and Losses

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

	December 31, 2005		December 31, 2004	
	Equity securities	Debt securities	Equity securities	Debt securities
	amounts in millions			
Gross unrealized holding gains	\$ 5,459	17	7,292	19
Gross unrealized holding losses	\$ (27)		(15)	

The aggregate fair value of securities with unrealized holding losses at December 31, 2005 was \$411 million. None of these securities had unrealized losses for more than 12 continuous months.

(7) Derivative Instruments

The Company's derivative instruments are summarized as follows:

Type of derivative	December 31,	
	2005	2004
	amounts in millions	
<i>Assets</i>		
Equity collars	\$ 1,568	2,016
Put spread collars	133	291
Other	83	121
	<u>1,784</u>	<u>2,428</u>
Less current portion	(661)	(827)
	<u>\$ 1,123</u>	<u>1,601</u>
<i>Liabilities</i>		
Exchangeable debenture call option obligations	\$ 927	1,102
Put options	342	445
Equity collars	160	398
Borrowed shares	1,581	907
Other	16	139
	<u>3,026</u>	<u>2,991</u>
Less current portion	(1,939)	(1,179)
	<u>\$ 1,087</u>	<u>1,812</u>

Equity Collars, Narrow-Band Collars, Put Spread Collars and Put Options

The Company has entered into equity collars, narrow-band collars, put spread collars, written put and call options and other financial instruments to manage market risk associated with its investments in certain marketable securities. These instruments are recorded at fair value based on option pricing models. Equity collars provide the Company with a put option that gives the Company the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price at a specified date in the future. Equity

collars also provide the counterparty with a call option that gives the counterparty the right to purchase the same securities at a specified price at a

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specified date in the future. The put option and the call option generally have equal fair values at the time of origination resulting in no cash receipts or payments. Narrow-band collars are equity collars in which the put and call prices are set so that the call option has a relatively higher fair value than the put option at the time of origination. In these cases the Company receives cash equal to the difference between such fair values.

Borrowed Shares

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

Exchangeable Debenture Call Option Obligations

Liberty has issued senior exchangeable debentures which are exchangeable for the value of a specified number of shares of Sprint common stock, Motorola and Freescale Semiconductor, Inc. common stock, Viacom Class B and CBS Corporation Class B common stock or Time Warner common stock, as applicable. (See note 9 for a more complete description of the exchangeable debentures.)

Under Statement 133, the call option feature of the exchangeable debentures is reported separately from the long-term debt portion in the consolidated balance sheets at fair value. Changes in the fair value of the call option obligations are recognized as unrealized gains (losses) on derivative instruments in Liberty's consolidated statements of operations.

Realized and Unrealized Gains on Derivative Instruments

Realized and unrealized gains (losses) on derivative instruments are comprised of the following:

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Change in fair value of exchangeable debenture call option feature	\$ 172	(129)	(158)
Change in the fair value of equity collars	311	(941)	(483)
Change in the fair value of borrowed shares	(205)	(227)	(121)
Change in the fair value of put options	(66)	2	108
Change in the fair value of put spread collars	9	8	21
Change in fair value of other derivatives(1)	36	3	(28)
	\$ 257	(1,284)	(661)

(1) Comprised primarily of interest rate swap agreements.

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

Liberty has various investments accounted for using the equity method. The following table includes Liberty's carrying amount and percentage ownership of the more significant investments in affiliates at December 31, 2005 and the carrying amount at December 31, 2004:

	December 31, 2005	December 31, 2004
	Percentage Ownership	Carrying Amount
		Carrying Amount
dollar amounts in millions		
Expedia	20%	\$ 1,213
Court TV	50%	297
GSN	50%	255
Other	various	143
		256
		784
		1,908

Expedia

IAC completed the spin off of Expedia on August 9, 2005. Accordingly, the Company recorded its share of earnings of Expedia for the five months ended December 31, 2005. The fair value of the Company's investment in Expedia was \$1,659 million at December 31, 2005. Summarized financial

information as of December 31, 2005 and for the year then ended for Expedia is as follows (amounts in millions):

Consolidated Balance Sheet	
Current assets	\$ 590
Property and equipment	91
Goodwill	5,860
Intangible assets	1,177
Other assets	39
	<u> </u>
Total assets	\$ 7,757
	<u> </u>
Current liabilities	\$ 1,438
Deferred income taxes	369
Other liabilities	144
Minority interest	72
Stockholders' equity	5,734
	<u> </u>
Total liabilities and equity	\$ 7,757
	<u> </u>
Consolidated Statement of Operations	
Revenue	\$ 2,120
Cost of revenue	(471)
	<u> </u>
Gross profit	1,649
Selling, general and administrative	(1,034)
Stock compensation	(92)
Amortization	(126)
	<u> </u>
Operating income	397
Interest income	49
Other expense	(31)
Income tax expense	(186)
	<u> </u>
Net earnings	\$ 229
	<u> </u>

(9) Long-Term Debt

Debt is summarized as follows:

	Outstanding principal December 31, 2005	Carrying value December 31,	
		2005	2004
amounts in millions			
Parent company debt:			
Senior notes and debentures			
3.5% Senior Notes due 2006	\$ 121	121	513
Floating Rate Senior Notes due 2006	1,247	1,247	2,463
7.875% Senior Notes due 2009	670	666	711
7.75% Senior Notes due 2009	234	235	235
5.7% Senior Notes due 2013	802	800	800
8.5% Senior Debentures due 2029	500	495	495
8.25% Senior Debentures due 2030	902	895	951
Senior exchangeable debentures			
4% Senior Exchangeable Debentures due 2029	869	251	249
3.75% Senior Exchangeable Debentures due 2030	810	231	228
3.5% Senior Exchangeable Debentures due 2031	600	235	231
3.25% Senior Exchangeable Debentures due 2031	551	117	118
0.75% Senior Exchangeable Debentures due 2023	1,750	1,552	1,473
	9,056	6,845	8,467
QVC bank credit facility	800	800	
Other subsidiary debt	105	105	109
	9,961	7,750	8,576
Less current maturities		(1,379)	(10)
		6,371	8,566
Total long-term debt		\$ 6,371	8,566

Parent Company Debt

During the year ended December 31, 2005, and pursuant to a previously announced debt reduction plan, Liberty retired \$1,719 million principal amount of its parent company debt (primarily comprised of its senior notes) for aggregate cash consideration of \$1,731 million plus accrued interest. In connection with these debt retirements, Liberty recognized a loss on early extinguishment of debt of \$18 million, which is included in other income (expense) in the accompanying consolidated statement of operations.

Senior Notes and Debentures

The Floating Rate Notes accrue interest at 3 month LIBOR plus a margin. At December 31, 2005 the borrowing rate was 5.99%.

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

The Senior Notes and Senior Debentures are stated net of an aggregate unamortized discount of \$17 million and \$20 million at December 31, 2005 and 2004, respectively, which is being amortized to interest expense in the accompanying consolidated statements of operations.

Senior Exchangeable Debentures

Each \$1,000 debenture of Liberty's 4% Senior Exchangeable Debentures is exchangeable at the holder's option for the value of 11.4743 shares of Sprint common stock. Liberty may, at its election, pay the exchange value in cash, Sprint common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the face amount of the debentures plus accrued interest.

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

Each \$1,000 debenture of Liberty's 3.5% Senior Exchangeable Debentures is exchangeable at the holder's option for the value of 36.8189 shares of Motorola common stock and 4.0654 shares of Freescale Semiconductor, Inc. ("Freescale"), which Motorola spun off to its shareholders in December 2004. Such exchange value is payable, at Liberty's option, in cash, Motorola and Freescale stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the face amount of the debentures plus accrued interest.

Each \$1,000 debenture of Liberty's 3.25% Senior Exchangeable Debentures is exchangeable at the holder's option for the value of 9.2833 shares of Viacom Class B common stock and 9.2833 shares of CBS Corporation ("CBS") Class B common stock, which Viacom spun off to its shareholders in December 2005. Such exchange value is payable at Liberty's option in cash, Viacom and CBS stock or a combination thereof. On or after March 15, 2006, Liberty, at its option, may redeem the debentures, in whole or in part, for cash equal to the face amount of the debentures plus accrued interest.

Each \$1,000 debenture of Liberty's 0.75% Senior Exchangeable Debentures is exchangeable at the holder's option for the value of 57.4079 shares of Time Warner common stock. Liberty may, at its election, pay the exchange value in cash, Time Warner common stock, shares of Liberty Series A common stock or a combination thereof. On or after April 5, 2008, Liberty, at its option, may redeem the debentures, in whole or in part, for shares of Time Warner common stock, cash or any combination thereof equal to the face amount of the debentures plus accrued interest. On March 30, 2008, March 30, 2013 or March 30, 2018, each holder may cause Liberty to purchase its exchangeable debentures, and Liberty, at its election, may pay the purchase price in shares of Time Warner common stock, cash, Liberty Series A common stock, or any combination thereof.

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

In accordance with Statement 133, the call option feature of the exchangeable debentures is reported at fair value and separately from the long-term debt in the consolidated balance sheet. The reported amount of the long-term debt portion of the exchangeable debentures is calculated as the difference between the face amount of the debentures and the fair value of the call option feature on the date of issuance. The long-term debt is accreted to its face amount over the expected term of the

debenture using the effective interest method. Accordingly, at December 31, 2005, the difference between the principal amount and the carrying value of the long-term debt portion is the unamortized fair value of the call option feature that was recorded at the date of issuance of the respective debentures. Accretion related to the Company's exchangeable debentures aggregated \$89 million, \$83 million and \$61 million during the years ended December 31, 2005, 2004 and 2003, respectively, and is included in interest expense in the accompanying consolidated statements of operations.

QVC Bank Credit Facility

Effective May 20, 2005, QVC entered into a \$2 billion bank credit facility (the "QVC Credit Facility"). The QVC Credit Facility is comprised of an \$800 million term loan that was drawn at closing, a \$400 million U.S. dollar term loan that can be drawn at any time before September 30, 2006, a \$400 million multi-currency term loan that can be drawn at any time before September 30, 2006, a \$200 million U.S. dollar revolving loan and a \$200 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 May 20, 2010, and accrue interest (4.94% at December 31, 2005), at the option of QVC, at LIBOR plus an applicable margin or the Alternative Base Rate, as defined in the QVC Credit Facility, plus an applicable margin. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments.

The QVC Credit Facility contains restrictive covenants, which require among other things, the maintenance of certain financial ratios and include limitations on indebtedness, liens, encumbrances, dispositions, guarantees and dividends. QVC was in compliance with its debt covenants at December 31, 2005.

Other Subsidiary Debt

Other subsidiary debt at December 31, 2005 is comprised primarily of capitalized satellite transponder lease obligations.

Five Year Maturities

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

2006	\$	1,379
2007	\$	11
2008	\$	1,762
2009	\$	916
2010	\$	12

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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 at December 31, 2005 is as follows (amounts in millions):

Fixed rate senior notes	\$	1,838
Floating rate senior notes	\$	1,228
Senior debentures	\$	1,347
Senior exchangeable debentures, including call option obligation	\$	3,858

Liberty believes that the carrying amount of its subsidiary debt approximated fair value at December 31, 2005.

(10) Income Taxes

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Current:			
Federal	\$ (100)	(177)	(4)
State and local	(75)	(61)	(29)
Foreign	(89)	(114)	(40)
	<u>(264)</u>	<u>(352)</u>	<u>(73)</u>
Deferred:			
Federal	237	166	(224)
State and local	170	59	(44)
Foreign	(2)	8	(1)
	<u>405</u>	<u>233</u>	<u>(269)</u>
Income tax benefit (expense)	<u>\$ 141</u>	<u>(119)</u>	<u>(342)</u>

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

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Computed expected tax benefit (expense)	\$ 72	(77)	310
Change in foreign and state tax rates	147		
State and local income taxes, net of federal income taxes	16	(6)	(45)
Foreign taxes	(31)	(47)	(40)
Change in valuation allowance affecting tax expense	(59)	(12)	(65)
Recognition of tax basis in equity of DMX		38	
Goodwill impairment charges not deductible for income tax purposes			(477)
Other, net	(4)	(15)	(25)
Income tax benefit (expense)	\$ 141	(119)	(342)

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

	December 31,	
	2005	2004
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	\$ 787	1,116
Accrued stock compensation	90	125
Other future deductible amounts	406	189
Deferred tax assets	1,283	1,430
Valuation allowance	(459)	(400)
Net deferred tax assets	824	1,030
Deferred tax liabilities:		
Investments	6,033	7,297
Intangible assets	2,528	2,465
Discount on exchangeable debentures	1,006	863
Other	112	240
Deferred tax liabilities	9,679	10,865
Net deferred tax liabilities	\$ 8,855	9,835

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

	December 31,	
	2005	2004
	amounts in millions	
Current deferred tax asset	\$ (33)	(28)
Current deferred tax liabilities	160	162
Long-term deferred tax liabilities	8,728	9,701
Net deferred tax liabilities	\$ 8,855	9,835

The Company's valuation allowance increased \$59 million in 2005.

At December 31, 2005, Liberty had net operating and capital loss carryforwards for income tax purposes aggregating approximately \$1,943 million which, if not utilized to reduce taxable income in future periods, will expire as follows: 2006: \$3 million; 2007: \$2 million; 2008: \$12 million; 2009: \$392 million; 2010: \$4 million and beyond 2010: \$1,530 million. Of the foregoing net operating and capital loss carryforward amount, approximately \$871 million is subject to certain limitations and may not be currently utilized. The remaining \$1,072 million is currently available to be utilized to offset future taxable income of Liberty's consolidated tax group.

Since the date Liberty issued its exchangeable debentures, it has 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 has resulted in Liberty claiming interest deductions significantly in excess of the cash interest currently paid on its exchangeable debentures. Interest deducted in prior years on its exchangeable debentures has contributed to net operating losses ("NOLs") that may be carried to offset taxable income in 2005 and later years. These NOLs and current interest deductions on its exchangeable debentures are being used to offset taxable income currently being generated.

The IRS has issued Technical Advice Memorandums ("TAMs") challenging the current deductibility of interest expense claimed on exchangeable debentures issued by other companies. The TAMs conclude that such interest expense must be capitalized as basis to the shares referenced in the exchangeable debentures. If the IRS were to similarly challenge Liberty's tax treatment of these interest deductions, and ultimately win such challenge, there would be no impact to Liberty's reported total tax expense as the resulting increase in current tax expense would be offset by a decrease in its deferred tax expense. However, the NOLs Liberty has recorded would not be available to offset its current taxable income, and Liberty would be required to make current federal income tax payments. These federal income tax payments could prove to be significant.

During the period from March 9, 1999 to August 10, 2001, Liberty was included in the consolidated federal income tax return of AT&T and was a party to a tax sharing agreement with AT&T (the "AT&T Tax Sharing Agreement"). While Liberty was a subsidiary of AT&T, Liberty recorded its stand-alone tax provision on a separate return basis. Under the AT&T Tax Sharing Agreement, Liberty received a cash payment from AT&T in periods when Liberty generated taxable losses and such taxable losses were utilized by AT&T to reduce its consolidated income tax liability. To the extent such losses were not utilized by AT&T, such amounts were available to reduce federal

taxable income generated by Liberty in future periods, similar to a net operating loss carryforward, and were accounted for as a deferred federal income tax benefit. Subsequent to Liberty's spin off from AT&T, if adjustments are made to amounts previously paid under the AT&T Tax Sharing Agreement, such adjustments are reflected as adjustments to additional paid-in capital. During the period from March 10, 1999 to December 31, 2002, Liberty received cash payments from AT&T aggregating \$670 million as payment for Liberty's taxable losses that AT&T utilized to reduce its income tax liability.

Also, pursuant to the AT&T Tax Sharing Agreement and in connection with the split off from AT&T, AT&T was required to pay Liberty an amount equal to 35% of the amount of the NOLs reflected in TCI's final federal income tax return that had not been used as an offset to Liberty's obligations under the AT&T Tax Sharing Agreement and that had been, or were reasonably expected to be, utilized by AT&T. In connection with the split off, Liberty received an \$803 million payment for TCI's NOLs and recorded such payment as an increase to additional paid-in capital. Liberty was not paid for certain of TCI's NOLs ("SRLY NOLs") due to limitations and uncertainty regarding AT&T's ability to use them to offset taxable income in the future. In the event AT&T was ultimately able to use any of the SRLY NOLs, they would be required to pay Liberty 35% of the amount of the SRLY NOLs used. In the fourth quarter of 2004 and in connection with the completion of an IRS audit of TCI's tax return for 1994, it was determined that Liberty was required to recognize additional taxable income related to the recapitalization of one of its investments resulting in a tax liability of approximately \$30 million. As a result of the tax assessment, Liberty also received a corresponding amount of additional tax basis in the investment. However, Liberty was able to cause AT&T to use a portion of the SRLY NOLs to offset this taxable income, the benefit of which resulted in the elimination of the \$30 million tax liability and an increase to additional paid-in capital.

In the fourth quarter of 2004, AT&T requested a refund from Liberty of \$70 million, plus accrued interest, relating to losses that it generated in 2002 and 2003 and was able to carry back to offset taxable income previously offset by Liberty's losses. AT&T has asserted that Liberty's losses caused AT&T to pay \$70 million in alternative minimum tax ("AMT") that it would not have been otherwise required to pay had Liberty's losses not been included in its return. In 2004, Liberty estimated that it may ultimately pay AT&T up to \$30 million of the requested \$70 million because Liberty believed AT&T received an AMT credit of \$40 million against income taxes resulting from the AMT previously paid. Accordingly, Liberty accrued a \$30 million liability with an offsetting reduction of additional paid-in capital. The net effect of the completion of the IRS tax audit noted above (including the benefit derived from AT&T for the utilization of the SRLY NOLs) and Liberty's accrual of amounts due to AT&T was an increase to deferred tax assets and an increase to other liabilities.

In the fourth quarter of 2005, AT&T requested an additional \$21 million relating to additional losses it generated and was able to carry back to offset taxable income previously offset by Liberty's losses. In addition, the information provided to Liberty in connection with AT&T's request shows that AT&T has not yet claimed a credit for AMT previously paid. Accordingly, in the fourth quarter of 2005, Liberty increased its accrual by approximately \$40 million (with a corresponding reduction of additional paid-in capital) representing its estimate of the amount it may ultimately pay (excluding accrued interest, if any) to AT&T as a result of this request. Although Liberty has not reduced its accrual for any future refunds, Liberty believes it is entitled to a refund when AT&T is able to realize a benefit in the form of a credit for the AMT previously paid.

In March 2006, AT&T requested an additional \$21 million relating to additional losses and IRS audit adjustments that it claims it is able to use to offset taxable income previously offset by Liberty's losses. Liberty is currently reviewing this claim and has not recorded an accrual for this request in its consolidated financial statements for the year ended December 31, 2005.

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

(11) Stockholders' Equity

Preferred Stock

Liberty's preferred stock is issuable, from time to time, with such designations, preferences and relative participating, optional or other rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such preferred stock adopted by Liberty's Board of Directors. As of December 31, 2005, no shares of preferred stock were issued.

Common Stock

Liberty's Series A common stock has one vote per share, and its Series B common stock has ten votes per share. Each share of the Series B common stock is exchangeable at the option of the holder for one share of Series A common stock.

As of December 31, 2005, there were 52.8 million shares of Liberty Series A common stock and 30.0 million shares of Liberty Series B common stock reserved for issuance under exercise privileges of outstanding stock options and warrants.

Purchases of Common Stock

During 2005, Liberty sold put options with respect to shares of its Series A common stock for net cash proceeds of \$2 million. Liberty accounts for the put options pursuant to Statement of Financial Accounting Standards No. 150, "*Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*" ("Statement 150"). Accordingly, the put options are recorded at fair value, and changes in the fair value are included in realized and unrealized gains (losses) on derivative instruments in the accompanying consolidated statement of operations. At December 31, 2005, Liberty had outstanding put options with respect to 12.5 million shares of its Series A common stock with an average put price of \$7.88 per share. All of these put options expire within 45 days after December 31, 2005.

During the year ended December 31, 2004, the Company acquired approximately 96.0 million shares of its Series B common stock from the estate and family of the late founder of Liberty's former parent in exchange for approximately 105.4 million shares of Liberty Series A common stock. Ten million of the acquired Series B shares have been accounted for as treasury stock in the accompanying consolidated balance sheet, and the remaining Series B shares have been retired.

On July 28, 2004, Liberty completed a transaction with Comcast pursuant to which Liberty repurchased 120.3 million shares of its Series A common stock (valued at \$1,017 million) held by

Comcast in exchange for 100% of the stock of Encore ICCP, Inc. ("Encore ICCP"), a wholly owned subsidiary of Liberty. At the time of the exchange, Encore ICCP held Liberty's 10% ownership interest in E! Entertainment Television, Liberty's 100% ownership interest in International Channel Networks, all of Liberty's rights, benefits and obligations under a TCI Music contribution agreement, and \$547 million in cash. The transaction also resolved all litigation pending between Comcast and Liberty regarding the TCI Music contribution agreement, to which Comcast succeeded as part of its acquisition of AT&T Broadband in November of 2002. In connection with this transaction, Liberty recognized a pre-tax gain on disposition of assets of \$387 million.

During 2004, Liberty entered into zero-strike call spreads ("Z-Call") with respect to six million shares of its Series A common stock. Liberty net cash settled all of its Z-calls during the first quarter of 2005 for net cash proceeds of \$63 million, which primarily represented the return of collateral posted by Liberty in 2004. Liberty accounts for the Z-Calls pursuant to Statement No. 150. Changes in the fair value of the Z-Calls are included in realized and unrealized gains (losses) on derivative instruments in the accompanying consolidated statement of operations.

During 2004, Liberty also sold put options with respect to shares of its Series A common stock for cash proceeds of \$3 million. All of these put options expired unexercised prior to December 31, 2004.

During the year ended December 31, 2003, the Company purchased 42.3 million shares of its common stock for aggregate cash consideration of \$437 million. These purchases have been accounted for as retirements of common stock and have been reflected as a reduction of stockholders' equity in the accompanying consolidated balance sheet.

(12) Transactions with Officers and Directors

Chairman's Employment Agreement

The Chairman's employment agreement provides for, among other things, deferral of a portion (not in excess of 40%) of the monthly compensation payable to him for all employment years commencing on or after January 1, 1993. The deferred amounts will be payable in monthly installments over a 20-year period commencing on the termination of the Chairman's employment, together with interest thereon at the rate of 8% per annum compounded annually from the date of deferral to the date of payment. The aggregate liability under this arrangement at December 31, 2005 is \$1.9 million, and is included in other liabilities in the accompanying consolidated balance sheet.

The Chairman's employment agreement also provides that in the event of termination of his employment with Liberty, he will be entitled to receive 240 consecutive monthly payments equal to \$15,000 increased at the rate of 12% per annum compounded annually from January 1, 1988 to the date payment commences (\$102,991 per month as of December 31, 2005). Such payments would commence on the first day of the month succeeding the termination of employment. In the event of the Chairman's death, his beneficiaries would be entitled to receive the foregoing monthly payments. The aggregate liability under this arrangement at December 31, 2005 is \$24.7 million, and is included in other liabilities in the accompanying consolidated balance sheet.

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The Company's Chairman deferred a portion of his monthly compensation under his previous employment agreement with Tele-Communications, Inc. ("TCI"). The Company assumed the obligation to pay that deferred compensation in connection with the TCI/AT&T Merger in 1999. The deferred obligation (together with interest at the rate of 13% per annum compounded annually), which aggregated \$13.9 million at December 31, 2005 and is included in other liabilities in the accompanying consolidated balance sheets, is payable on a monthly basis, following the occurrence of specified events, under the terms of the previous employment agreement. The rate at which interest accrues on the deferred obligation was established in 1983 pursuant to the previous employment agreement.

Other

In September 2000, certain officers of Liberty purchased a 6% common stock interest in a subsidiary for \$1.3 million. Such subsidiary owned an indirect interest in an entity that held certain of Liberty's investments in satellite and technology related assets. Liberty and the officers entered into a shareholders agreement in which the officers could require Liberty to purchase, after five years, all or part of their common stock interest in exchange for Series A Liberty stock at the then fair market value. In addition, Liberty had the right to purchase, in exchange for Series A Liberty common stock, the common stock interests held by the officers at fair market value at any time. During 2001, two of the officers resigned their positions with the Company, and the Company purchased their respective interests in the subsidiary for the original purchase price plus 6% interest. In December 2005, Liberty redeemed all of the remaining shares of common stock of the subsidiary from the officers for aggregate cash proceeds of \$80.

Effective November 28, 2003, Liberty acquired all the outstanding stock of TP Investment, Inc. ("TPI"), a corporation wholly owned by TP-JCM, LLC, a limited liability company in which the sole member is the Company's Chairman. In exchange for the stock of TPI, TP-JCM received 5,281,739 shares of the Company's Series B common stock, valued in the agreement at \$11.50 per share. As prescribed by the Agreement and Plan of Merger pursuant to which the acquisition was effected, that per share value equals 110% of the average of the closing sale prices of the Company's Series A common stock for the ten trading days ended November 28, 2003. TPI owns 10,602 shares of Series B Preferred Stock of Liberty TP Management, Inc. ("Liberty TP Management"), a subsidiary of the Company. Those shares of Series B Preferred Stock represent 12% of the voting power of Liberty TP Management. TPI also owns a 5% membership interest (representing a 50% voting interest) in Liberty TP LLC, a limited liability company which owns approximately 20.6% of the common equity and 27.2% of the voting power of Liberty TP Management. As a result of the acquisition, the Company beneficially owns all the equity and voting interests in Liberty TP Management. Liberty TP Management owns Liberty's interest in TruePosition, Inc. and certain equity interests in Sprint Nextel Corporation and IDT Investments, Inc.

In connection with the acquisition of TPI, the Company entered into a registration rights agreement. That agreement provides for the registration by the Company under applicable federal and state securities laws, at the holder's request, of the sale of shares of the Company's Series A common stock issuable upon conversion of shares of the Series B common stock that were issued to TP-JCM.

The shares of Liberty Series B common stock issued to TP-JCM are subject to the Company's rights to purchase such shares pursuant to a call agreement entered into in February 1998 by the Chairman and his spouse. Pursuant to the call agreement, Liberty has the right to acquire all of the Liberty Series B common stock held by the Chairman and his spouse in certain circumstances. The

price of acquiring such shares is generally limited to the market price of the Liberty Series A common stock, plus a 10% premium.

(13) Stock Options and Stock Appreciation Rights

Liberty

Pursuant to the Liberty Media Corporation 2000 Incentive Plan (the "Liberty Incentive Plan"), the Company has granted to certain of its employees stock options, SARs and stock options with tandem SARs (collectively, "Awards") to purchase shares of Liberty Series A and Series B common stock. The Liberty Incentive Plan provides for Awards to be made in respect of a maximum of 160 million shares of common stock of Liberty.

In connection with the Company's rights offering, which expired on December 2, 2002, and pursuant to the Liberty Incentive Plan antidilution provisions, the number of shares and the applicable exercise prices of all Liberty options granted pursuant to the Liberty Incentive Plan were adjusted as of October 31, 2002, the record date for the rights offering. As a result of the foregoing modifications, all of the Company's options granted prior to October 31, 2002 are accounted for as variable plan awards.

On December 17, 2002, shareholders of the Company approved the Liberty Media Corporation 2002 Nonemployee Director Incentive Plan (the "NDIP"). Under the NDIP, the Liberty Board of Directors (the "Liberty Board") has the full power and authority to grant eligible nonemployee directors stock options, SARs, stock options with tandem SARs, and restricted stock.

Awards granted pursuant to the Liberty Incentive Plan and the NDIP during the years ended December 31, 2005, 2004 and 2003 are provided in the table below. The exercise prices in the table represent the exercise price on the date of grant and have not been adjusted for the effects of the LMI Spin Off and the DHC Spin Off.

<u>Grant year</u>	<u>Grant group</u>	<u>Grant type</u>	<u>Number of awards granted</u>	<u>Weighted average exercise price</u>	<u>Vesting period</u>	<u>Term</u>	<u>Weighted average grant date fair value</u>
Series A Awards							
2003	Employees	SARs	4,667,000	\$ 11.09	5 years	10 years	\$ 5.57
2003	Employees	SARs	1,500,000	\$ 14.33	5 years	10 years	\$ 5.57
2003	Directors	SARs	66,000	\$ 11.85	1 year	10 years	\$ 5.93
2004	Employees	SARs	4,011,450	\$ 8.45	5 years	10 years	\$ 4.36
2004	Directors	SARs	66,000	\$ 11.00	1 year	10 years	\$ 5.84
2005	Employees	Options	9,076,750	\$ 8.26	4 years	7 years	\$ 2.34
2005	Directors	SARs	55,000	\$ 10.36	1 year	10 years	\$ 4.50

Series B Awards

2005	Employees	Options	1,800,000	\$ 9.21	3 years	10 years	\$ 4.67
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The estimated fair values of the options noted above are based on the Black-Scholes model and are stated in current annualized dollars on a present value basis. The key assumptions used in the model for purposes of these calculations generally include the following: (a) a discount rate equal to the Treasury rate for bonds with the same expected term as the Award; (b) a 21% volatility factor;

(c) the expected term of the Award; (d) the closing price of the respective common stock on the date of grant; and (e) an expected dividend rate of zero.

In connection with the LMI Spin Off and pursuant to the anti-dilution provisions of the Liberty Incentive Plan, the Liberty incentive plan committee determined to make adjustments to outstanding Liberty Awards. As of the record date, each outstanding Award held by (1) employees of LMI, (2) employees of Liberty in departments of Liberty that were expected to provide services to LMI pursuant to the Facilities and Services Agreement and (3) directors of Liberty were divided into (A) an option to purchase shares of LMI common stock equal to 0.05 times the number of LMC Awards held by the option holder on the record date and (B) an Award to purchase shares of Liberty common stock equal to the same number of shares of Liberty common stock for which the outstanding Award was exercisable. The aggregate exercise price of each pre-Spin Off Award was allocated between the new Liberty Award and the LMI Award. All other Awards were adjusted to increase the number of shares of Liberty common stock for which the Award was exercisable and to decrease the exercise price to reflect the dilutive effect of the distribution of LMI common stock in the LMI Spin Off.

Pursuant to the Reorganization Agreement Liberty is responsible for settlement of all Liberty Awards whether held by Liberty employees or LMI employees, and LMI is responsible for settlement of all LMI Awards whether held by Liberty employees or LMI employees. Liberty will continue to record compensation for all Liberty and LMI Awards held by Liberty employees. The compensation for LMI Awards will be reflected as an adjustment to additional paid-in capital in Liberty's statement of stockholders' equity.

In connection with the DHC Spin Off and pursuant to the anti-dilution provisions of the Liberty Incentive Plan, the Liberty incentive plan committee determined to make adjustments to outstanding Liberty Awards. As of the record date, each outstanding Award held by (1) employees of DHC, (2) employees of Liberty in departments of Liberty that were expected to provide services to DHC pursuant to the Facilities and Services Agreement and (3) directors of Liberty were divided into (A) an option to purchase shares of DHC common stock equal to 0.10 times the number of LMC Awards held by the option holder on the record date and (B) an Award to purchase shares of Liberty common stock equal to the same number of shares of Liberty common stock for which the outstanding Award was exercisable. The aggregate exercise price of each pre-Spin Off Award was allocated between the new Liberty Award and the DHC Award. All other Awards were adjusted to increase the number of shares of Liberty common stock for which the Award was exercisable and to decrease the exercise price to reflect the dilutive effect of the distribution of DHC common stock in the DHC Spin Off.

Pursuant to the Reorganization Agreement Liberty is responsible for settlement of all Liberty Awards whether held by Liberty employees or DHC employees, and DHC is responsible for settlement of all DHC Awards whether held by Liberty employees or DHC employees. Liberty will continue to record compensation for all Liberty and DHC Awards held by Liberty employees. The compensation for DHC Awards will be reflected as an adjustment to additional paid-in capital in Liberty's statement of stockholders' equity.

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The following table presents the number and weighted average exercise price ("WAEP") of certain options, SARs and options with tandem SARs to purchase Liberty Series A and Series B common stock granted to certain officers, employees and directors of the Company.

	Liberty Series A common stock	WAEP	Liberty Series B common stock	WAEP
numbers of options in thousands				
Outstanding at January 1, 2003	48,661	\$ 9.60	28,165	\$ 14.96
Granted	6,233	\$ 11.88		
Exercised	(323)	\$ 4.68		
Canceled	(619)	\$ 17.22		
Options issued in mergers	1,142	\$ 78.53		
<hr/>				
Outstanding at December 31, 2003	55,094	\$ 11.23	28,165	\$ 14.96
Granted	4,078	\$ 8.54		
Exercised	(2,060)	\$ 2.13		
Canceled	(5,457)	\$ 13.32		
Adjustments related to LMI Spin Off	4,321			
<hr/>				
Outstanding at December 31, 2004	55,976	\$ 9.15	28,165	\$ 12.94
Granted	9,189	\$ 8.28	1,800	\$ 9.21
Exercised	(14,249)	\$ 2.05		
Repurchased	(1,121)	\$ 23.59		
Canceled	(2,211)	\$ 13.93		
Adjustments related to DHC Spin Off	4,145			
<hr/>				
Outstanding at December 31, 2005	51,729	\$ 9.23	29,965	\$ 10.92
<hr/>				
Exercisable at December 31, 2003	34,529	\$ 9.12	13,378	\$ 14.96
<hr/>				
Exercisable at December 31, 2004	37,558	\$ 8.18	18,307	\$ 12.94
<hr/>				
Exercisable at December 31, 2005	32,953	\$ 9.52	23,236	\$ 11.03
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The following table provides additional information about the Company's outstanding options to purchase Liberty Series A common stock at December 31, 2005.

No. of outstanding options (000's)	Range of exercise prices	WAEP of outstanding options	Weighted average remaining life	No. of exercisable options (000's)	WAEP of exercisable options
7,022	\$ 0.55 - \$ 3.72	\$ 0.74	0.2 years	7,022	\$ 0.74
21,576	\$ 5.55 - \$ 9.87	\$ 8.17	6.8 years	6,089	\$ 8.10
22,193	\$ 10.65 - \$ 12.16	\$ 10.79	5.1 years	18,963	\$ 10.79
938	\$ 16.82 - \$251.69	\$ 60.09	4.8 years	879	\$ 62.03
<hr/>				<hr/>	
51,729				32,953	
<hr/>				<hr/>	

QVC

QVC has a qualified and nonqualified combination stock option/stock appreciation rights plan (collectively, the "Tandem Plan") for employees, officers, directors and other persons designated by the Stock Option Committee of QVC's board of directors. Under the Tandem Plan, the option price is generally equal to the fair market value, as determined by an independent appraisal, of a share of the underlying common stock of QVC at the date of the grant. The fair value of a share of QVC common stock as of the latest valuation date is \$2,960. If the eligible participant elects the SAR feature of the Tandem Plan, the participant receives 75% of the excess of the fair market value of a share of QVC common stock over the exercise price of the option to which it is attached at the exercise date. The holders of a majority of the outstanding options have stated an intention not to exercise the SAR feature of the Tandem Plan. Because the exercise of the option component is more likely than the exercise of the SAR feature, compensation expense is measured based on the stock option component. As a result, QVC is applying fixed plan accounting in accordance with APB Opinion No. 25. Under the Tandem Plan, option/SAR terms are ten years from the date of grant, with options/SARs generally becoming exercisable over four years from the date of grant. At December 31, 2005, there were a total of 186,789 options and SARs outstanding, 77,862 of which were vested at a weighted average exercise price of \$1,148 and 108,927 of which were unvested at a weighted average exercise price of \$2,324. During the years ended December 31, 2005 and 2004, QVC received cash proceeds from the exercise of options aggregating \$46 million and \$39 million, respectively. In 2005 and 2004, QVC also repurchased shares of common stock issued upon exercise of stock options in prior years. Cash payments aggregated \$71 million and \$168 million, respectively, for these repurchases.

As of December 31, 2005, Liberty had granted to certain officers and employees of QVC a total of 6,383,410 restricted shares of Liberty Series A common stock. Such shares generally vest as to 50% on each of January 1, 2006 and 2007.

SEG

SEG has outstanding Phantom Stock Appreciation Rights ("PSARs") held by its former chief executive officer. Such PSARs are fully vested and expire on October 17, 2011, and SEG has accrued \$131 million as of December 31, 2005 related to the PSARs. Such amount is payable in cash, Liberty common stock or a combination thereof. In December 2005, SEG terminated a second PSAR plan for certain of its other executive officers and made cash payments aggregating \$7 million upon termination.

Other

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

(14) *Employee Benefit Plans*

Liberty is the sponsor of the Liberty Media 401(k) Savings Plan (the "Liberty 401(k) Plan"), which provides its employees and the employees of certain of its subsidiaries an opportunity for ownership in the Company and creates a retirement fund. The Liberty 401(k) Plan provides for employees to make contributions to a trust for investment in Liberty common stock, as well as several mutual funds. The Company and its subsidiaries make matching contributions to the Liberty 401(k) Plan based on a

percentage of the amount contributed by employees. In addition, certain of the Company's subsidiaries have similar employee benefit plans. Employer cash contributions to all plans aggregated \$24 million, \$23 million and \$12 million for the years ended December 31, 2005, 2004 and 2003, respectively.

(15) Other Comprehensive Earnings (Loss)

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

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

	Foreign currency translation adjustments	Unrealized holding gains (losses) on securities	Accumulated other comprehensive earnings (loss), net of taxes
	amounts in millions		
Balance at January 1, 2003	\$ (316)	809	493
Other comprehensive earnings	35	2,713	2,748
Balance at December 31, 2003	(281)	3,522	3,241
Other comprehensive earnings	23	1,002	1,025
Contribution to LMI		(51)	(51)
Other activity	9	(9)	
Balance at December 31, 2004	(249)	4,464	4,215
Other comprehensive loss	307	(1,101)	(794)
Balance at December 31, 2005	\$ 58	3,363	3,421

Included in Liberty's accumulated other comprehensive earnings (loss) at December 31, 2004 was \$123 million, net of income taxes, of foreign currency translation losses related to Cablevisión, S.A. ("Cablevisión"), a former equity method investment of Liberty, and \$186 million, net of income taxes, of foreign currency translation losses related to Telewest Global, Inc. ("Telewest"), another former equity method investment of Liberty. In the first quarter of 2005, Liberty disposed of its interests in Cablevisión and Telewest. Accordingly, Liberty recognized in its statement of operations \$488 million of foreign currency translation losses (before income tax benefits) related to Cablevisión and Telewest that were previously included in accumulated other comprehensive earnings (loss).

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

	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
amounts in millions			
<i>Year ended December 31, 2005:</i>			
Foreign currency translation adjustments	\$ (8)	3	(5)
Reclassification adjustment for currency losses realized in net earnings	503	(191)	312
Unrealized holding losses on securities arising during period	(1,808)	687	(1,121)
Reclassification adjustment for holding gains realized in net earnings	350	(133)	217
Reclass unrealized gain on AFS security	(318)	121	(197)
	<u> </u>	<u> </u>	<u> </u>
Other comprehensive loss	\$ (1,281)	487	(794)
	<u> </u>	<u> </u>	<u> </u>
<i>Year ended December 31, 2004:</i>			
Foreign currency translation adjustments	\$ 38	(15)	23
Unrealized holding losses on securities arising during period	2,443	(953)	1,490
Reclassification adjustment for holding gains realized in net earnings	(800)	312	(488)
	<u> </u>	<u> </u>	<u> </u>
Other comprehensive earnings	\$ 1,681	(656)	1,025
	<u> </u>	<u> </u>	<u> </u>
<i>Year ended December 31, 2003:</i>			
Foreign currency translation adjustments	\$ 57	(22)	35
Unrealized holding gains on securities arising during period	5,477	(2,136)	3,341
Reclassification adjustment for holding gains realized in net loss	(1,030)	402	(628)
	<u> </u>	<u> </u>	<u> </u>
Other comprehensive earnings	\$ 4,504	(1,756)	2,748
	<u> </u>	<u> </u>	<u> </u>

(16) Transactions with Related Parties

SEG pays Revolution Studios ("Revolution"), an equity affiliate, fees for the rights to exhibit films produced by Revolution. Payments aggregated \$84 million, \$99 million and \$91 million in 2005, 2004 and 2003, respectively.

(17) Commitments and Contingencies

Film Rights

SEG, a wholly-owned subsidiary of Liberty, provides premium video programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States. SEG has entered into agreements with a number of motion picture producers which obligate SEG 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 SEG at December 31, 2005 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2005 is payable as follows: \$191 million in 2006; \$11 million in 2007; and \$13 million thereafter.

SEG has also contracted to pay Programming Fees for films that have been released theatrically, but are not available for exhibition by SEG until some future date. These amounts have not been accrued at December 31, 2005. SEG's estimate of amounts payable under these agreements is as follows: \$539 million in 2006; \$178 million in 2007; \$103 million in 2008; \$95 million in 2009; \$75 million in 2010 and \$52 million thereafter.

In addition, SEG 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 2009, all qualifying films that are released theatrically in the United States by studios owned by Sony Pictures Entertainment ("Sony") through 2010 and all qualifying films produced for theatrical release in the United States by Revolution through 2006. Films are generally available to SEG for exhibition 10-12 months after their theatrical release. The Programming Fees to be paid by SEG are based on the quantity and the domestic theatrical exhibition receipts of qualifying films. As these films have not yet been released in theatres, SEG is unable to estimate the amounts to be paid under these output agreements. However, such amounts are expected to be significant.

In addition to the foregoing contractual film obligations, each of Disney and Sony has the right to extend its contract for an additional three years. If Sony elects to extend its contract, SEG has agreed to pay Sony a total of \$190 million in four annual installments of \$47.5 million beginning in 2011. This option expires December 31, 2007. If made, SEG's payments to Sony would be amortized ratably as programming expense over the extension period beginning in 2011. An extension of this agreement would also result in the payment by SEG of Programming Fees for qualifying films released by Sony during the extension period. If Disney elects to extend its contract, SEG is not obligated to pay any amounts in excess of its Programming Fees for qualifying films released by Disney during the extension period. The Disney option expires December 31, 2007.

Guarantees

Liberty guarantees SEG's obligations under certain of its studio output agreements. At December 31, 2005, Liberty's guarantees for obligations for films released by such date aggregated \$779 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, SEG has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of SEG, 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 consolidated financial statements with respect to these indemnification guarantees.

Operating Leases

Liberty leases business offices, has entered into satellite transponder lease agreements and uses certain equipment under lease arrangements. Rental expense under such arrangements amounted to \$52 million, \$57 million and \$36 million for the years ended December 31, 2005, 2004 and 2003, respectively.

A summary of future minimum lease payments under noncancelable operating leases as of December 31, 2005 follows (amounts in millions):

Years ending December 31:	
2006	\$ 27
2007	\$ 22
2008	\$ 19
2009	\$ 16
2010	\$ 9
Thereafter	\$ 13

It is expected that in the normal course of business, leases that expire generally will be renewed or replaced by leases on other properties; thus, it is anticipated that future lease commitments will not be less than the amount shown for 2005.

Litigation

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

Loss Contract

During the third quarter of 2005, a subsidiary of Liberty, TruePosition, Inc. ("TruePosition"), entered into an agreement with one of its major customers whereby TruePosition will remove and replace certain location-based equipment supplied by another vendor and currently installed in the customer's network. TruePosition currently estimates that the costs to provide this equipment and service will exceed the revenue earned and that it will incur a loss of approximately \$18 million on the contract. Since this agreement is an executory contract, TruePosition will recognize this loss during the term of the contract as material elements of the contract are delivered. TruePosition entered into this agreement because it believes its appointment as the customer's exclusive provider of these services and the resulting future potential revenue earned from the customer's continuing network build-out and expansion will exceed the loss computed on the contractual arrangement. However, no assurance can be given that future business from this customer will be sufficient to offset the loss incurred on this portion of the contract.

(18) Information About Liberty's Operating Segments

Liberty is a holding company, which through its ownership of interests in subsidiaries and other companies, is primarily engaged in the electronic retailing, media, communications and entertainment

industries. Each of these businesses is separately managed. Liberty has organized its businesses into two Groups based upon each businesses' services or products: Interactive Group and Capital Group. Liberty's chief operating decision maker and management team review the combined results of operations of each of these Groups (including consolidated subsidiaries and equity method affiliates), as well as the results of operations of each individual business in each Group.

Liberty identifies its reportable segments as (A) those consolidated subsidiaries that represent 10% or more of its consolidated revenue, earnings before income taxes or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of Liberty's pre-tax earnings. The segment presentation for prior periods has been conformed to the current period segment presentation. Liberty evaluates performance and makes decisions about allocating resources to its Groups and operating segments based on financial measures such as revenue, operating cash flow, gross margin, average sales price per unit, number of units shipped and revenue or sales per customer equivalent.

Liberty defines operating cash flow as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock compensation). Liberty believes this 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 compensation, litigation settlements and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, operating cash flow should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. Liberty generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

For the year ended December 31, 2005, Liberty has identified the following consolidated subsidiaries as its reportable segments:

QVC consolidated subsidiary that markets and sells a wide variety of consumer products in the United States and several foreign countries, primarily by means of televised shopping programs on the QVC networks and via the Internet through its domestic and international websites.

SEG consolidated subsidiary that provides premium programming distributed by cable operators, direct-to-home satellite providers and other distributors 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

	Years ended December 31,					
	2005		2004		2003	
	Revenue	Operating cash flow	Revenue	Operating cash flow	Revenue	Operating cash flow
	amounts in millions					
QVC	\$ 6,501	1,422	5,687	1,230	1,973	434
SEG	1,004	171	963	239	906	368
Corporate and other	455	(5)	401	(30)	351	(77)
Consolidated Liberty	\$ 7,960	1,588	7,051	1,439	3,230	725

Balance Sheet Information

	December 31,			
	2005		2004	
	Total assets	Investments in affiliates	Total assets	Investments in affiliates
	amounts in millions			
QVC	\$ 15,602	2	14,314	78
SEG	2,966	45	2,945	52
Corporate and other	23,384	1,861	27,234	654
Discontinued operations			5,716	
Consolidated Liberty	\$ 41,952	1,908	50,209	784

The following table provides a reconciliation of segment operating cash flow to earnings (loss) from continuing operations before income taxes and minority interest:

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Consolidated segment operating cash flow	\$ 1,588	1,439	725
Stock compensation	(52)	(98)	91
Litigation settlement		42	
Depreciation and amortization	(639)	(658)	(394)
Impairment of long-lived assets			(1,362)
Interest expense	(623)	(615)	(508)
Realized and unrealized gains (losses) on derivative instruments, net	257	(1,284)	(661)

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	Years ended December 31,		
Gains (losses) on dispositions, net	(365)	1,406	1,126
Nontemporary declines in fair value of investments	(449)	(129)	(22)
Other, net	119	121	118
	_____	_____	_____
Earnings (loss) from continuing operations before income taxes and minority interest	\$ (164)	224	(887)
	_____	_____	_____

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Revenue by Geographic Area

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

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
United States	\$ 6,015	5,424	2,741
Germany	781	643	151
Other foreign countries	1,164	984	338
	Consolidated Liberty	\$ 7,960	7,051
		3,230	

Long-lived Assets by Geographic Area

	December 31,	
	2005	2004
	amounts in millions	
United States	\$ 747	768
Germany	204	203
Other foreign countries	180	162
	Consolidated Liberty	\$ 1,131
		1,133

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(19) Quarterly Financial Information (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
amounts in millions, except per share amounts				
2005:				
Revenue	\$ 1,821	1,839	1,850	2,450
Operating income	\$ 203	188	179	327
Earnings (loss) from continuing operations	\$ 239	(126)	(87)	(90)
Net earnings (loss)	\$ 254	(107)	(94)	(86)
Basic and diluted earnings (loss) from continuing operations per common shares	\$.09	(.04)	(.03)	(.03)
Basic and diluted net earnings (loss) per common share	\$.09	(.04)	(.03)	(.03)
2004:				
Revenue	\$ 1,606	1,641	1,632	2,172
Operating income	\$ 210	178	152	185
Earnings (loss) from continuing operations	\$ 71	(334)	359	4
Net earnings (loss)	\$ (10)	(314)	372	(2)
Basic and diluted earnings (loss) from continuing operations per common share	\$.02	(.11)	.13	
Basic and diluted net earnings (loss) per common share	\$	(.11)	.13	

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ANNEX B: FINANCIAL INFORMATION

Part 2 Historical Attributed Financial Information

The following tables present our assets, liabilities, revenue, expenses and cash flows as of and for the years ended December 31, 2005, 2004 and 2003. The tables further present our assets, liabilities, revenue, expenses and cash flows that will be attributed to the Interactive Group and the Capital Group, respectively, if the restructuring is completed. Such attribution does not correspond to our historic classification of businesses for purposes of our operating segment presentation. For example, our Interactive Group Segment for the year ended December 31, 2004 included the results of operations and financial condition of certain subsidiaries, including On Command Corporation and OpenTV Corp., which are being attributed to the Capital Group in connection with the restructuring. Accordingly, the attributed financial information of the Capital Group presented below includes On Command Corporation and OpenTV Corp. for all periods presented. The financial information is derived from our audited financial statements for the year ended December 31, 2005 included in Part 1 of this Annex B. The attributed financial information presented in the tables has been prepared assuming the restructuring had been completed as of January 1, 2003.

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

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BALANCE SHEET INFORMATION

December 31, 2005

	Attributed (note 1)			Historical Liberty
	Interactive Group	Capital Group	Eliminations	
	amounts in millions			
<i>Assets</i>				
Current assets:				
Cash and cash equivalents	\$ 945	1,001		1,946
Trade and other receivables, net	837	269		1,106
Inventory, net	719			719
Derivative instruments (note 2)	17	644		661
Current deferred tax assets	169		(136)	33
Other current assets	29	666		695
Total current assets	2,716	2,580	(136)	5,160
Investments in available-for-sale securities and other cost investments (note 3)	2,084	16,413		18,497
Long-term derivative instruments (note 2)	17	1,106		1,123
Investments in affiliates, accounted for using the equity method	1,229	679		1,908
Property and equipment, net	746	385		1,131
Goodwill	5,273	1,680		6,953
Trademarks	2,385			2,385
Intangible assets subject to amortization, net	3,867	161		4,028
Other assets, at cost, net of accumulated amortization	21	746		767
Total assets	\$ 18,338	23,750	(136)	41,952
<i>Liabilities and Equity</i>				
Current liabilities:				
Accounts payable	\$ 466	50		516
Accrued liabilities	668	158		826
Intergroup payable/receivable	95	(95)		
Accrued stock-based compensation		133		133
Derivative instruments (note 2)	12	1,927		1,939
Current portion of debt (note 4)	1,377	2		1,379
Current deferred tax liabilities		296	(136)	160
Other current liabilities	36	297		333
Total current liabilities	2,654	2,768	(136)	5,286
Long-term debt (note 4)	3,950	2,421		6,371
Long-term derivative instruments (note 2)		1,087		1,087
Deferred income tax liabilities (note 7)	3,104	5,624		8,728
Other liabilities	239	831		1,070
Total liabilities	9,947	12,731	(136)	22,542
Minority interests in equity of subsidiaries	160	130		290
Equity/Attributed net assets	8,231	10,889		19,120

Attributed (note 1)

Total liabilities and equity	\$	18,338	23,750	(136)	41,952
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BALANCE SHEET INFORMATION

December 31, 2004

Attributed (note 1)

	Interactive Group	Capital Group	Eliminations	Historical Liberty
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amounts in millions

<i>Assets</i>				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 855	532		1,387
Trade and other receivables, net	708	327		1,035
Inventory, net	712			712
Derivative instruments (note 2)		827		827
Current deferred tax assets	116		(88)	28
Other current assets	32	583		615
Total current assets	2,423	2,269	(88)	4,604
Investments in available-for-sale securities and other cost investments (note 3)	3,844	18,003		21,847
Long-term derivative instruments (note 2)	34	1,567		1,601
Investments in affiliates, accounted for using the equity method	78	706		784
Property and equipment, net	734	399		1,133
Goodwill	5,268	1,670		6,938
Trademarks	2,385			2,385
Intangible assets subject to amortization, net	4,191	245		4,436
Other assets, at cost, net of accumulated amortization	20	745		765
Assets of discontinued operations		5,716		5,716
Total assets	\$ 18,977	31,320	(88)	50,209
<i>Liabilities and Equity</i>				
<i>Current liabilities:</i>				
Accounts payable	\$ 363	61		424
Accrued liabilities	601	187		788
Intergroup payable/receivable	65	(65)		
Accrued stock compensation		235		235
Derivative instruments (note 2)		1,179		1,179
Other current liabilities	10	503		513
Total current liabilities	1,039	2,100		3,139
Long-term debt (note 4)	6,244	2,322		8,566
Long-term derivative instruments (note 2)	15	1,797		1,812
Deferred income tax liabilities (note 7)	3,465	6,324	(88)	9,701
Other liabilities	271	530		801
Liabilities of discontinued operations		1,305		1,305
Total liabilities	11,034	14,378	(88)	25,324
Minority interests in equity of subsidiaries	161	138		299
Equity/Attributed net assets	7,782	16,804		24,586

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Attributed (note 1)

Total liabilities and equity	\$	18,977	31,320	(88)	50,209
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STATEMENT OF OPERATIONS INFORMATION

Year ended December 31, 2005

	Attributed (note 1)		
	Interactive Group	Capital Group	Historical Liberty
amounts in millions, except per share amounts			
Revenue:			
Net sales from electronic retailing	\$ 6,501		6,501
Communications and programming services		1,459	1,459
	<u>6,501</u>	<u>1,459</u>	<u>7,960</u>
Operating costs and expenses:			
Cost of sales - electronic retailing services	4,112		4,112
Operating	570	1,038	1,608
Selling, general and administrative ("SG&A") (note 5)	402	250	652
Stock-based compensation - SG&A (note 6)	52		52
Depreciation and amortization	449	190	639
	<u>5,585</u>	<u>1,478</u>	<u>7,063</u>
Operating income (loss)	916	(19)	897
Other income (expense):			
Interest expense	(371)	(252)	(623)
Dividend and interest income	35	109	144
Share of earnings of affiliates, net	9	4	13
Realized and unrealized gains (losses) on financial instruments, net	(17)	274	257
Gains (losses) on dispositions of assets, net	40	(405)	(365)
Nontemporary declines in fair value of investments		(449)	(449)
Other, net	(38)		(38)
	<u>(342)</u>	<u>(719)</u>	<u>(1,061)</u>
Earnings (loss) from continuing operations before income taxes and minority interests	574	(738)	(164)
Income tax benefit (expense) (note 7)	(228)	369	141
Minority interests in losses (earnings) of subsidiaries	(48)	7	(41)
Earnings (loss) from continuing operations	<u>\$ 298</u>	<u>(362)</u>	<u>(64)</u>
Earnings (loss) from continuing operations:			
Liberty Interactive common stock			\$ 298
Liberty Capital common stock			(362)
			<u>\$ (64)</u>
Historical basic and diluted loss from continuing operations per common share			<u>\$ (.02)</u>

Attributed (note 1)

Pro forma basic and diluted earnings (loss) from continuing operations per common share (note 8):

Liberty Interactive common stock	\$.43
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Liberty Capital common stock	\$ (2.58)
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STATEMENT OF OPERATIONS INFORMATION

Year ended December 31, 2004

	Attributed (note 1)		
	Interactive Group	Capital Group	Historical Liberty
amounts in millions, except per share amounts			
Revenue:			
Net sales from electronic retailing	\$ 5,687		5,687
Communications and programming services		1,364	1,364
	5,687	1,364	7,051
Operating costs and expenses:			
Cost of sales electronic retailing services	3,594		3,594
Operating	497	859	1,356
Selling, general and administrative (note 5)	372	290	662
Stock compensation SG&A (note 6)	39	59	98
Litigation settlement		(42)	(42)
Depreciation and amortization	437	221	658
	4,939	1,387	6,326
Operating income (loss)	748	(23)	725
Other income (expense):			
Interest expense	(381)	(234)	(615)
Dividend and interest income	20	111	131
Share of earnings (losses) of affiliates, net	(3)	18	15
Realized and unrealized losses on derivative instruments, net	(17)	(1,267)	(1,284)
Gains on dispositions, net	7	1,399	1,406
Nontemporary declines in fair value of investments		(129)	(129)
Other, net	4	(29)	(25)
	(370)	(131)	(501)
Earnings (loss) from continuing operations before income taxes and minority interest	378	(154)	224
Income tax benefit (expense) (note 7)	(166)	47	(119)
Minority interests in losses (earnings) of subsidiaries	(25)	20	(5)
Earnings (loss) from continuing operations	\$ 187	(87)	100
Historical basic and diluted earnings from continuing operations per common share			\$.04

STATEMENT OF OPERATIONS INFORMATION

Year ended December 31, 2003

	Attributed (note 1)		
	Interactive Group	Capital Group	Historical Liberty
amounts in millions, except per share amounts			
Revenue:			
Net sales from electronic retailing	\$ 1,973		1,973
Communications and programming services		1,257	1,257
	1,973	1,257	3,230
Operating costs and expenses:			
Cost of sales electronic retailing services	1,258		1,258
Operating	171	689	860
Selling, general and administrative (note 5)	113	274	387
Stock compensation SG&A (note 6)	4	(95)	(91)
Depreciation and amortization	136	258	394
Impairment of long-lived assets		1,362	1,362
	1,682	2,488	4,170
Operating income (loss)	291	(1,231)	(940)
Other income (expense):			
Interest expense	(289)	(219)	(508)
Dividend and interest income	17	147	164
Share of earnings (losses) of affiliates, net	107	(100)	7
Realized and unrealized gains (losses) on derivative instruments, net	31	(692)	(661)
Gains on dispositions, net		1,126	1,126
Nontemporary declines in fair value of investments		(22)	(22)
Other, net	4	(57)	(53)
	(130)	183	53
Earnings (loss) from continuing operations before income taxes and minority interest	161	(1,048)	(887)
Income tax expense (note 7)	(87)	(255)	(342)
Minority interests in losses (earnings) of subsidiaries	(12)	12	
Earnings (loss) from continuing operations	\$ 62	(1,291)	(1,229)
Historical basic and diluted loss from continuing operations per common share			\$ (.44)

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STATEMENT OF CASH FLOWS INFORMATION

Year ended December 31, 2005

	Attributed (note 1)		
	Interactive Group	Capital Group	Historical Liberty
amounts in millions			
Cash flows from operating activities:			
Net earnings (loss)	\$ 298	(331)	(33)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Earnings from discontinued operations		(31)	(31)
Depreciation and amortization	449	190	639
Stock-based compensation	52		52
Payments of stock-based compensation		(103)	(103)
Noncash interest expense	3	98	101
Share of earnings of affiliates, net	(9)	(4)	(13)
Realized and unrealized losses (gains) on financial instruments, net	17	(274)	(257)
Losses (gains) on disposition of assets, net	(40)	405	365
Nontemporary declines in fair value of investments		449	449
Minority interests in earnings (losses) of subsidiaries	48	(7)	41
Deferred income tax benefit	(185)	(220)	(405)
Other noncash charges, net	38	4	42
Changes in operating assets and liabilities, net of the effects of acquisitions:			
Current assets	(162)	(22)	(184)
Payables and other current liabilities	245	202	447
Net cash provided by operating activities	754	356	1,110
Cash flows from investing activities:			
Cash proceeds from dispositions	1	62	63
Premium proceeds from origination of derivatives		473	473
Net proceeds from settlement of derivatives		461	461
Capital expended for property and equipment	(153)	(80)	(233)
Net purchases of short term investments		(85)	(85)
Cash paid for acquisitions, net of cash acquired		(5)	(5)
Other investing activities, net	(19)	(20)	(39)
Net cash provided (used) by investing activities	(171)	806	635
Cash flows from financing activities:			
Borrowings of debt	800	61	861
Repayments of debt	(1,734)	(67)	(1,801)
Intergroup cash transfers, net	548	(548)	
Repurchases of subsidiary common stock	(85)	(10)	(95)
Other financing activities, net	23	77	100
Net cash used by financing activities	(448)	(487)	(935)
Effect of foreign currency rates on cash	(45)		(45)

Attributed (note 1)

Net cash provided to discontinued operations:			
Cash provided by operating activities	31	31	
Cash used by investing activities	(47)	(47)	
Cash provided by financing activities			
Change in available cash held by discontinued operations	(190)	(190)	
	<u> </u>	<u> </u>	<u> </u>
Net cash provided to discontinued operations		(206)	(206)
	<u> </u>	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	90	469	559
Cash and cash equivalents at beginning of year	855	532	1,387
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end of year	\$ 945	1,001	1,946
	<u> </u>	<u> </u>	<u> </u>

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STATEMENT OF CASH FLOWS INFORMATION

Year ended December 31, 2004

	Attributed (note 1)		
	Interactive Group	Capital Group	Historical Liberty
amounts in millions			
Cash flows from operating activities:			
Net earnings (loss)	\$ 187	(141)	46
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Loss from discontinued operations		54	54
Depreciation and amortization	437	221	658
Stock compensation	39	59	98
Payments of stock compensation		(10)	(10)
Noncash interest expense	3	93	96
Share of losses (earnings) of affiliates, net	3	(18)	(15)
Nontemporary decline in fair value of investments		129	129
Realized and unrealized losses on derivative instruments, net	17	1,267	1,284
Gains on disposition of assets, net	(7)	(1,399)	(1,406)
Minority interests in earnings (losses) of subsidiaries	25	(20)	5
Deferred income tax benefit	(183)	(50)	(233)
Other noncash charges (credits), net	(4)	25	21
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions:			
Current assets	(181)	(339)	(520)
Payables and other current liabilities	110	513	623
Net cash provided by operating activities	446	384	830
Cash flows from investing activities:			
Cash proceeds from dispositions	7	472	479
Premium proceeds from origination of derivatives		193	193
Net proceeds from settlement of derivatives		322	322
Investments in and loans to cost and equity investees	(8)	(952)	(960)
Cash paid for acquisitions, net of cash acquired	(92)	(1)	(93)
Capital expended for property and equipment	(121)	(56)	(177)
Net sales of short term investments		272	272
Repayments of notes receivable		117	117
Other investing activities, net	(20)	6	(14)
Net cash provided (used) by investing activities	(234)	373	139
Cash flows from financing activities:			
Repayments of debt	(961)	(45)	(1,006)
Intergroup cash transfers, net	718	(718)	
Purchases of Liberty Series A common stock		(547)	(547)
Repurchases of subsidiary common stock	(168)	(3)	(171)
Other financing activities, net	87	(50)	37
Net cash used by financing activities	(324)	(1,363)	(1,687)

Effect of foreign currency rates on cash

3

3

Attributed (note 1)

Net cash provided to discontinued operations:			
Cash provided by operating activities	216		216
Cash used by investing activities	(247)		(247)
Cash provided by financing activities	996		996
Change in available cash held by discontinued operations	(1,829)		(1,829)
Net cash provided to discontinued operations		(864)	(864)
Net decrease in cash and cash equivalents	(109)	(1,470)	(1,579)
Cash and cash equivalents at beginning of year	964	2,002	2,966
Cash and cash equivalents at end of year	\$ 855	532	1,387

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STATEMENT OF CASH FLOWS INFORMATION

Year ended December 31, 2003

	Attributed (note 1)		
	Interactive Group	Capital Group	Historical Liberty
amounts in millions			
Cash flows from operating activities:			
Net earnings (loss)	\$ 62	(1,284)	(1,222)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:			
Earnings from discontinued operations		(7)	(7)
Depreciation and amortization	136	258	394
Impairment of long-lived assets		1,362	1,362
Stock compensation	4	(95)	(91)
Payments of stock compensation		(360)	(360)
Noncash interest expense	2	73	75
Share of losses (earnings) of affiliates, net	(107)	100	(7)
Nontemporary decline in fair value of investments		22	22
Realized and unrealized losses (gains) on derivative instruments, net	(31)	692	661
Gains on disposition of assets, net		(1,126)	(1,126)
Deferred income tax expense	6	263	269
Minority interests in earnings (losses) of subsidiaries	12	(12)	
Other noncash charges, net	3	67	70
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions:			
Current assets	(123)	(224)	(347)
Payables and other current liabilities	153	23	176
Net cash provided (used) by operating activities	117	(248)	(131)
Cash flows from investing activities:			
Cash proceeds from dispositions		2,443	2,443
Premium proceeds from origination of derivatives		763	763
Net proceeds from settlement of derivatives	13	1,159	1,172
Investments in and loans to cost and equity investees	(1,166)	(1,391)	(2,557)
Cash paid for acquisitions, net of cash acquired	(726)	15	(711)
Capital expended for property and equipment	(60)	(91)	(151)
Net sales of short term investments		95	95
Other investing activities, net	(2)	11	9
Net cash provided (used) by investing activities	(1,941)	3,004	1,063
Cash flows from financing activities:			
Borrowings of debt	2,343	1,809	4,152
Repayments of debt	(1,701)	(1,372)	(3,073)
Intergroup cash transfers, net	2,118	(2,118)	
Purchases of Liberty Series A common stock		(437)	(437)
Proceeds from issuance of common stock		141	141
Other financing activities, net	10	(52)	(42)
Net cash provided (used) by financing activities	2,770	(2,029)	741

Attributed (note 1)

	18	18
Effect of foreign currency rates on cash	18	18
Net cash provided to discontinued operations:		
Cash provided by operating activities	101	101
Cash used by investing activities	(536)	(536)
Cash used by financing activities	(430)	(430)
Change in available cash held by discontinued operations	(10)	(10)
Net cash provided to discontinued operations	(875)	(875)
Net increase (decrease) in cash and cash equivalents	964	(148)
Cash and cash equivalents at beginning of year	2,150	2,150
Cash and cash equivalents at end of year	\$ 964	2,002
	2,966	2,966

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Notes to Historical Attributed Financial Information

(1)

The Interactive Group will initially comprise our approximate 98% interest in QVC, Inc., our approximate 22% ownership interest in IAC/InterActiveCorp, which we account for as an available-for-sale security and our approximate 20% ownership interest in Expedia, which we account for as an equity affiliate. Accordingly, the accompanying attributed financial information for the Interactive Group includes our investments in IAC/InterActiveCorp and Expedia as well as the assets, liabilities, revenue, expenses and cash flows of QVC. We have also attributed certain of our debt obligations (and related interest expense) to the Interactive Group based upon a number of factors, including the cash flow available to the Interactive Group and its ability to pay debt service and our assessment of the optimal capitalization for the Interactive Group. The specific debt obligations attributed to each of the Interactive Group and the Capital Group are described in note 4 below. In addition, we have allocated certain corporate general and administrative expenses between the Interactive Group and the Capital Group as described in note 5 below.

The Interactive Group will focus on video and on-line commerce businesses. Accordingly, businesses that we may acquire in the future that we believe are complementary to this strategy will also be attributed to the Interactive Group. In this regard, we acquired Provide Commerce, Inc., an on-line retailer of perishable products such as cut flowers and meats, on February 9, 2006, and we intend to attribute Provide to the Interactive Group.

The Capital Group will consist of all of our businesses not included in the Interactive Group, including our consolidated subsidiaries Starz Entertainment Group LLC, On Command Corporation, TruePosition, Inc., and OpenTV Corp. and our cost and equity investments in GSN, LLC, Courtroom Television Network LLC, WildBlue Communications, Inc. and others. Accordingly, the accompanying attributed financial information for the Capital Group includes these investments and the assets, liabilities, revenue, expenses and cash flows of these consolidated subsidiaries. In addition, we have attributed to the Capital Group all of our notes and debentures (and related interest expense) that have not been attributed to the Interactive Group. See note 4 below for the debt obligations attributed to the Capital Group.

Any businesses that we may acquire in the future that we do not believe will be complementary to the Interactive Group will be attributed to the Capital Group. In this regard, on March 10, 2006, we acquired a majority interest in FUN Technologies plc. We intend to attribute FUN to the Capital Group.

While we believe the allocation methodology described above is reasonable and fair to each group, we may elect to change the allocation methodology in the future. In the event we elect to transfer assets or businesses from one group to the other, such transfer would be made on a fair value basis and would be accounted for as a short term loan unless the board of directors determines to account for it as a long-term loan or through an inter-group. See "The Restructuring Proposals Management and Allocation Policies Financing Activities" in this proxy statement/prospectus for a further description of these transactions.

(2)

Derivative instruments attributed to the Interactive Group are comprised of total return bond swaps and interest rate swaps that are related to the parent company debt attributed to the Interactive Group.

(3)

The carrying value and unrealized holding gains as of December 31, 2005 of cost investments attributed to the Interactive Group are presented below:

	Carrying value	Unrealized holding gains
amounts in millions		
IAC/InterActiveCorp	\$ 1,960	395
GSI Commerce, Inc	124	65
	<u>\$ 2,084</u>	<u>460</u>

(4)

Debt attributed to the Interactive Group and the Capital Group is comprised of the following:

	December 31, 2005	
	Outstanding principal	Carrying value
amounts in millions		
Interactive Group		
3.5% Senior Notes due 2006	\$ 121	121
Floating Rate Senior Notes due 2006	1,247	1,247
7.875% Senior Notes due 2009	670	666
7.75% Senior Notes due 2009	234	235
5.7% Senior Notes due 2013	802	800
8.5% Senior Debentures due 2029	500	495
8.25% Senior Debentures due 2030	902	895
QVC bank credit facility	800	800
QVC capital leases	68	68
	<u>5,344</u>	<u>5,327</u>
Total Interactive Group debt	<u>5,344</u>	<u>5,327</u>
Capital Group		
4% Senior Exchangeable Debentures due 2029	869	251
3.75% Senior Exchangeable Debentures due 2030	810	231
3.5% Senior Exchangeable Debentures due 2031	600	235
3.25% Senior Exchangeable Debentures due 2031	551	117
0.75% Senior Exchangeable Debentures due 2023	1,750	1,552
Subsidiary debt	37	37
	<u>4,617</u>	<u>2,423</u>
Total Capital Group debt	<u>4,617</u>	<u>2,423</u>
Total debt	<u>\$ 9,961</u>	<u>7,750</u>

(5)

Cash and stock-based compensation expense for our corporate employees have been allocated between the Interactive Group and the Capital Group based on the estimated percentage of time spent providing services for each group. Other general and administrative expenses are charged directly to the groups whenever possible and are otherwise allocated based on estimated usage or some other reasonably determined methodology. Amounts allocated from the Capital Group to the Interactive Group for the years ended December 31, 2005, 2004 and 2003 were \$5 million, \$11 million and \$2 million, respectively. While we believe that this allocation method is reasonable and fair to each group, management may elect to change the allocation methodology or percentages used to allocate general and administrative expenses in the future.

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(6)

We account for compensation expense related to stock options and stock appreciation rights pursuant to the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"). Compensation is recognized based upon the percentage of the options that are vested and the difference between the market price of the underlying common stock and the exercise price of the options at the balance sheet date. The following tables illustrate the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("Statement 123") to our options. Compensation expense for SARs and options with tandem SARs is the same under APB Opinion No. 25 and Statement 123. Accordingly, no pro forma adjustment for such awards is included in the following table.

Interactive Group

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Earnings from continuing operations	\$ 298	187	62
Add stock-based compensation as determined under the intrinsic value method, net of taxes	1	1	1
Deduct stock-based compensation as determined under the fair value method, net of taxes	(24)	(21)	(12)
Pro forma earnings from continuing operations	\$ 275	167	51

Capital Group

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Loss from continuing operations	\$ (362)	(87)	(1,291)
Add stock-based compensation as determined under the intrinsic value method, net of taxes	1	1	1
Deduct stock-based compensation as determined under the fair value method, net of taxes	(23)	(23)	(36)
Pro forma loss from continuing operations	\$ (384)	(109)	(1,326)

(7)

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

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Restructuring Proposals Management and Allocation Policies" in the accompanying proxy statement/prospectus. The Interactive Group's income tax benefit (expense) consists of:

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Current:			
Federal	\$ (259)	(240)	(31)
State and local	(69)	(62)	(29)
Foreign	(85)	(47)	(21)
	<u>(413)</u>	<u>(349)</u>	<u>(81)</u>
Deferred:			
Federal	150	137	(16)
State and local	37	38	10
Foreign	(2)	8	
	<u>185</u>	<u>183</u>	<u>(6)</u>
Income tax expense	\$ (228)	(166)	(87)

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

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Computed expected tax expense	\$ (184)	(124)	(52)
State and local income taxes, net of federal income taxes	(27)	(26)	(12)
Foreign taxes	(29)	(6)	(18)
Change in valuation allowance affecting tax expense	2	1	
Change in foreign and state tax rates	28		
Other, net	(18)	(11)	(5)
	<u>(228)</u>	<u>(166)</u>	<u>(87)</u>
Income tax expense	\$ (228)	(166)	(87)

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

	December 31,	
	2005	2004
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	\$ 6	8
Accrued stock compensation	33	22
Other future deductible amounts	147	123
	<u>186</u>	<u>153</u>
Deferred tax assets	186	153
Valuation allowance	(6)	(7)
	<u>180</u>	<u>146</u>
Deferred tax liabilities:		
Investments	618	883
Intangible assets	2,418	2,416
Other	79	196
	<u>3,115</u>	<u>3,495</u>
Deferred tax liabilities	3,115	3,495
Net deferred tax liabilities	\$ 2,935	3,349

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

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Current:			
Federal	\$ 159	63	27
State and local	(6)	1	
Foreign	(4)	(67)	(19)
	<u>149</u>	<u>(3)</u>	<u>8</u>
Deferred:			
Federal	87	29	(208)
State and local	133	21	(54)
Foreign			(1)
	<u>220</u>	<u>50</u>	<u>(263)</u>
Income tax benefit (expense)	\$ 369	47	(255)

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

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Computed expected tax benefit	\$ 256	47	362
Impairment charges and amortization of goodwill not deductible for income tax purposes			(477)
State and local income taxes, net of federal income taxes	43	20	(33)
Foreign taxes	(2)	(41)	(22)
Recognition of tax basis in equity of DMX		38	
Change in valuation allowance affecting tax expenses	(61)	(13)	(65)
Change in foreign and state tax rates	119		
Other, net	14	(4)	(20)
Income tax benefit (expense)	\$ 369	47	(255)

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

	December 31,	
	2005	2004
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	\$ 781	1,108
Accrued stock compensation	57	103
Other future deductible amounts	259	66
Deferred tax assets	1,097	1,277
Valuation allowance	(453)	(393)
Net deferred tax assets	644	884
Deferred tax liabilities:		
Investments	5,415	6,414
Intangible assets	110	49
Discount on exchangeable debentures	1,006	863
Other	33	44
Deferred tax liabilities	6,564	7,370
Net deferred tax liabilities	\$ 5,920	6,486

As further described under "Risk Factors Factors Relating to the Restructuring Proposals and Ownership of Tracking Stock If the Restructuring was considered to result in a "significant modification" of our outstanding publicly-traded debt for U.S. federal income tax purposes, we would incur significant tax liabilities" in this proxy statement/prospectus, we have submitted a request for a private

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letter ruling from the IRS to the effect that the restructuring will not result in a "significant modification," and therefore a deemed exchange, of our outstanding publicly-traded debt for U.S. federal income tax purposes. The restructuring, however, is not conditioned upon the receipt by us of the private letter ruling. If the restructuring were determined to be a "significant modification" of our outstanding publicly-traded debt, based on bid prices for that debt as of

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March 31, 2006, we estimate that the related tax liability (determined without regard to any tax benefits that we may otherwise have available to us) could be approximately \$900 million. We expect that most of these tax liabilities, were they to arise, would result from the deemed exchange of our exchangeable debentures, and accordingly, most of these tax liabilities would be attributed to the Capital Group.

(8)

Pro forma basic and diluted earnings (loss) per common share has been calculated by dividing the earnings (loss) attributable to each of the Interactive Group and the Capital Group by 700.7 million shares of Liberty Interactive common stock and 140.1 million shares of Liberty Capital common stock, respectively, which are the number of shares that would have been issued if the restructuring had been completed on December 31, 2005.

(9)

As further described under "The Restructuring Proposals Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock" in this proxy statement/prospectus, if the restructuring proposals are adopted and the restructuring is completed, the Interactive Group and Capital Group will have voting and conversion rights under the amended charter. Following is a summary of those rights. Holders of Series A common stock will be entitled to one vote per share and holders of Series B common stock will be entitled to ten votes per share. Holders of Series C common stock will be entitled to 1/100th of a vote per share in certain limited cases and will otherwise not be entitled to vote. In general, holders of Series A and Series B common stock will vote as a single class. In certain limited circumstances, the board may elect to seek the approval of the holders of only Series A and Series B Liberty Interactive common stock or the approval of the holders of only Series A and Series B Liberty Capital common stock.

At the option of the holder, each share of Series B common stock will be convertible into one share of Series A common stock of the same group. At the discretion of our board, Liberty Interactive common stock may be converted into Liberty Capital common stock at any time following the first anniversary of the restructuring. In addition, following certain group dispositions and subject to certain limitations, Liberty Capital common stock may be converted into Liberty Interactive common stock, and Liberty Interactive common stock may be converted into Liberty Capital common stock.

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ANNEX B: FINANCIAL INFORMATION

**PART 3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS AND QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK**

The following discussion and analysis provides information concerning our consolidated results of operations and financial condition, as well as attributed results of operations and financial condition for each of the Interactive Group and the Capital Group. This discussion should be read in conjunction with our consolidated financial statements as of December 31, 2005, 2004 and 2003 and for the years then ended included in Part 1 of this Annex B.

Liberty Media Corporation

Overview

We are a holding company that owns controlling and non-controlling interests in a broad range of electronic retailing, media, communications and entertainment companies. Our more significant operating subsidiaries, which are also our reportable segments, are QVC, Inc. and Starz Entertainment Group LLC, which we refer to as SEG. 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. SEG provides premium programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States.

Our corporate and other segment includes our other consolidated subsidiaries and corporate expenses. Our other consolidated subsidiaries include On Command Corporation ("On Command"), OpenTV Corp. ("OpenTV") and TruePosition, Inc. ("TruePosition"). On Command provides in-room, on-demand video entertainment and information services to hotels, motels and resorts primarily in the United States. OpenTV provides interactive television solutions, including operating middleware, web browser software, interactive applications and consulting and support services. TruePosition provides equipment and technology that provide location-based services to wireless users.

In addition to the foregoing businesses, we hold an approximate 20% interest in Expedia, Inc., which we account for as an equity method investment, and we continue to maintain significant investments and related derivative positions in public companies such as News Corporation, IAC/InterActiveCorp, Time Warner Inc. and Sprint Nextel Corporation, which are accounted for at their respective fair market value and are included in corporate and other.

Discontinued Operations

On July 21, 2005, we completed the spin off of our wholly-owned subsidiary, Discovery Holding Company ("DHC"), to our shareholders. At the time of the spin off, DHC's assets were comprised of our 100% ownership interest in Ascent Media Group, our 50% ownership interest in Discovery Communications, Inc. and \$200 million in cash. In connection with the spin off, holders of our common stock on July 15, 2005 received 0.10 of a share of DHC Series A common stock for each share of Liberty Series A common stock owned at 5:00 p.m. New York City time on July 15, 2005 and 0.10 of a share of DHC Series B common stock for each share of Liberty Series B common stock owned at 5:00 p.m. New York City time on July 15, 2005. The spin off is intended to qualify as a tax-free spin off. We recognized no gain or loss in connection with the spin off due to the pro rata nature of the distribution.

On June 7, 2004, we completed the spin off of our wholly-owned subsidiary, Liberty Media International, Inc. ("LMI"), to our shareholders. Substantially all of the assets and businesses of LMI were attributed to our International Group segment. In connection with the spin off, holders of our

common stock on June 1, 2004 received 0.05 of a share of LMI Series A common stock for each share of Liberty Series A common stock owned at 5:00 p.m. New York City time on June 1, 2004 and 0.05 of a share of LMI Series B common stock for each share of Liberty Series B common stock owned at 5:00 p.m. New York City time on June 1, 2004. The spin off is intended to qualify as a tax-free spin off. For accounting purposes, the spin off is deemed to have occurred on June 1, 2004, and we recognized no gain or loss in connection with the spin off due to the pro rata nature of the distribution.

During the fourth quarter of 2004, the executive committee of our board of directors approved a plan to dispose of our approximate 56% ownership interest in Maxide Acquisition, Inc. (d/b/a DMX Music, "DMX"). On February 14, 2005, DMX commenced proceedings under Chapter 11 of the United States Bankruptcy Code. On May 16, 2005, The Bankruptcy Court approved the sale of substantially all of the operating assets of DMX to an independent third party. As a result of the DMX bankruptcy filing, we deconsolidated DMX effective January 1, 2005.

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

Strategies and Challenges of Business Units

QVC has identified improved domestic growth and continued international growth as key areas of focus in 2006. QVC's steps to achieving these goals will include (1) continued domestic and international efforts to increase the number of customers who have access to and use its service, (2) continued expansion of brand selection and available domestic products and (3) continued development and enhancement of the QVC websites to drive Internet commerce. The key challenges to achieving these goals in both the U.S. and international markets are (1) increased competition from other home shopping and Internet retailers, (2) advancements in technology, such as video on demand and personal video recorders, which may alter television viewing habits, (3) maintaining favorable channel positioning as digital television penetration increases and (4) successful management transition.

SEG views (1) negotiating new affiliation agreements with key distributors, (2) introducing new pay-per-view and subscription services for Internet delivery and (3) increasing subscribers as key initiatives in 2006. SEG faces several key obstacles in its attempt to meet these goals, including: (1) continued consolidation in the broadband and satellite distribution industries; (2) the impact on television viewer habits of new technologies such as video on demand and personal video recorders; (3) cable operators' promotion of bundled service offerings rather than premium video services; and (4) an increasing number of alternative movie and programming sources.

*Material Changes in Results of Operations***Consolidated Operating Results**

	Years ended December 31,		
	2005	2004	2003
amounts in millions			
Revenue			
Interactive Group:			
QVC	\$ 6,501	5,687	1,973
Capital Group:			
SEG	1,004	963	906
Corporate and other	455	401	351
Consolidated revenue	\$ 7,960	7,051	3,230
Operating Cash Flow (Deficit)			
Interactive Group:			
QVC	\$ 1,422	1,230	434
Corporate and other	(5)	(6)	(3)
Capital Group:			
SEG	171	239	368
Corporate and other		(24)	(74)
Consolidated operating cash flow	\$ 1,588	1,439	725
Operating Income (Loss)			
Interactive Group:			
QVC	\$ 921	760	292
Corporate and other	(5)	(12)	(1)
Capital Group:			
SEG	105	148	266
Corporate and other	(124)	(171)	(1,497)
Consolidated operating income (loss)	\$ 897	725	(940)

Revenue. Our consolidated revenue increased 12.9% in 2005 and over 100% in 2004, as compared to the corresponding prior year. The 2005 increase was driven primarily by growth of 14.3% at QVC and growth of 4.3% at SEG. In addition, TruePosition's revenue increased \$77 million as it continued to increase delivery and acceptance of its equipment in Cingular Wireless's markets. The 2004 increase is due primarily to our September 2003 acquisition of a controlling interest in QVC. Our 2004 revenue was also positively impacted by an increase at SEG of \$57 million, a \$21 million increase for TruePosition and a \$14 million increase for OpenTV. A more complete discussion of QVC's and SEG's results of operations can be found in Management's Discussion and Analysis for the Interactive Group and the Capital Group below.

Operating Cash Flow. We define Operating Cash Flow as revenue less cost of sales, operating expenses and selling, general and administrative ("SG&A") expenses (excluding stock compensation). Our chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance.

This measure of performance excludes such costs as depreciation and amortization, stock compensation, litigation settlements and impairments of long-lived assets that are included in the measurement of operating income pursuant to generally accepted accounting principles ("GAAP"). Accordingly, Operating Cash Flow 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.

Consolidated Operating Cash Flow increased \$149 million or 10.4% and \$714 million or 98.5% in 2005 and 2004, respectively, as compared to the corresponding prior year. The 2005 increase is due to a \$192 million increase for QVC and a \$30 million improvement for TruePosition, partially offset by a \$68 million decrease for SEG. The 2004 increase is due primarily to our acquisition of QVC, which contributed \$1,230 million and \$434 million in 2004 and 2003, respectively, to our consolidated Operating Cash Flow. This increase was partially offset by a decrease in SEG's operating cash flow (\$129 million) primarily due to higher programming costs. In addition, OpenTV's Operating Cash Flow improved \$19 million and our corporate general and administrative expenses decreased \$11 million in 2004.

The following table provides a reconciliation of segment operating cash flow to earnings (loss) from continuing operations before income taxes and minority interests:

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Consolidated operating cash flow	\$ 1,588	1,439	725
Stock-based compensation	(52)	(98)	91
Litigation settlement		42	
Depreciation and amortization	(639)	(658)	(394)
Impairment of long-lived assets			(1,362)
Interest expense	(623)	(615)	(508)
Realized and unrealized gains (losses) on financial instruments, net	257	(1,284)	(661)
Gains (losses) on dispositions, net	(365)	1,406	1,126
Nontemporary declines in fair value of investments	(449)	(129)	(22)
Other, net	119	121	118
Earnings (loss) from continuing operations before income taxes and minority interests	\$ (164)	224	(887)

Stock compensation. Stock 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. The amount of expense associated with stock compensation is generally based on the vesting of the related stock options and stock appreciation rights and the market price of the underlying common stock, as well as the vesting of PSARs and the equity value of the related subsidiary. The increase in stock compensation in 2004 is due primarily to an increase in our stock price. The expense reflected in our consolidated statement of operations is based on the market price of the underlying common stock as of the date of the financial statements and is subject to future adjustment based on market price fluctuations, vesting percentages and, ultimately, on the final determination of market value when the options are exercised.

Depreciation and amortization. Depreciation and amortization decreased slightly in 2005 due to certain assets becoming fully amortized, partially offset by an increase in depreciable assets due to

capital expenditures. The increase in amortization in 2004 is due primarily to the acquisition of QVC and amortization of the related intangible assets.

Impairment of long-lived assets. SEG obtained an independent third party valuation in connection with its 2003 annual year-end evaluation of the recoverability of its goodwill. The result of this valuation, which was based on a discounted cash flow analysis of projections prepared by the management of SEG, indicated that the fair value of this reporting unit was less than its carrying value. This reporting unit fair value was then used to calculate an implied value of the goodwill related to SEG. The \$1,352 million excess of the carrying amount of the goodwill (including \$1,195 million of allocated enterprise-level goodwill) over its implied value was recorded as an impairment charge in the fourth quarter of 2003. SEG's operating income includes \$157 million of the foregoing impairment charge and \$1,195 million is included in Corporate and Other. The reduction in the value of SEG reflected in the third party valuation is believed to be attributable to a number of factors. Those factors include the reliance placed in that valuation on projections by management reflecting a lower rate of revenue growth compared to earlier projections based, among other things, on the possibility that revenue growth may be negatively affected by (1) a reduction in the rate of growth in total digital video subscribers and in the subscription video on demand business as a result of cable operators' increased focus on the marketing and sale of other services, such as high speed Internet access and telephony, and the uncertainty as to the success of marketing efforts by distributors of SEG's services and (2) lower per subscriber rates under a new affiliation agreement with Comcast.

Operating income (loss). We generated consolidated operating income of \$897 million and \$725 million in 2005 and 2004, respectively, compared to an operating loss of \$940 million in 2003. The higher operating loss in 2003 is due primarily to the goodwill impairment charge recorded by SEG noted above. Our operating income in 2005 is attributable to QVC (\$921 million) and SEG (\$105 million) partially offset by operating losses of our other consolidated subsidiaries and corporate expenses.

Other Income and Expense

Interest expense. Interest expense was \$623 million, \$615 million and \$508 million, for the years ended December 31, 2005, 2004 and 2003, respectively, including \$89 million, \$83 million and \$61 million, respectively, of accretion of our exchangeable debentures. The increase in 2005 is due to lower outstanding debt balances, more than offset by higher interest rates on our variable rate debt. The increase in 2004 is due to our issuance of debt for our acquisition of QVC in September 2003, partially offset by decreases due to our debt retirements in 2004 and the fourth quarter of 2003.

Dividend and interest income. Dividend and interest income was \$144 million, \$131 million and \$164 million for the years ended December 31, 2005, 2004 and 2003, respectively. The 2004 decrease is due primarily to a decrease in the interest we earned on invested cash balances. Interest and dividend income for the year ended December 31, 2005 was comprised of interest income earned on invested cash (\$59 million), dividends on News Corp. common stock (\$58 million), dividends on other available-for-sale ("AFS") securities (\$21 million) and other (\$6 million).

Realized and unrealized gains (losses) on derivative instruments. Realized and unrealized gains (losses) on derivative instruments are comprised of the following:

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Change in fair value of exchangeable debenture call option features	\$ 172	(129)	(158)
Change in fair value of equity collars	311	(941)	(483)
Change in fair value of borrowed shares	(205)	(227)	(121)
Change in fair value of put options	(66)	2	108
Change in fair value of put spread collars	9	8	21
Change in fair value of other derivatives	36	3	(28)
	<u>\$ 257</u>	<u>(1,284)</u>	<u>(661)</u>

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

Transaction	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Sale of investment in Telewest Global, Inc.	\$ (266)		
Sale of investment in Cablevisión S.A.	(188)		
Sale of News Corp. non-voting shares		844	236
Exchange transaction with Comcast		387	
Sale of investment in Cendant Corporation			510
Sale of investment in Vivendi Universal			262
Other, net	89	175	118
	<u>\$ (365)</u>	<u>1,406</u>	<u>1,126</u>

In the above transactions, the gains or losses were calculated based upon the difference between the carrying value of the assets relinquished, as determined on an average cost basis, compared to the fair value of the assets received.

Nontemporary declines in fair value of investments. During 2005, 2004 and 2003, we determined that certain of our cost investments experienced other-than-temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based primarily on quoted market prices at the date each adjustment was deemed necessary. These adjustments are reflected as nontemporary declines in fair value of investments in our consolidated statements of operations and aggregated \$449 million, \$129 million and \$22 million for the years ended December 31, 2005, 2004 and 2003, respectively. The impairment recorded in 2005 includes \$352 million related to our investment in News Corp. voting shares.

Income taxes. Our effective tax rate was 68.8% in 2005, 54.3% in 2004 and was not meaningful in 2003. Our effective tax rate in 2005 was greater than the U.S. federal income tax rate of 35% due to a tax benefit of \$147 million that we recorded as a result of a change in our estimated effective state and foreign tax rates. In the third quarter of 2005, we assessed our weighted average state tax rate in connection with our spin off of Discovery Holding Company. As a result of this assessment, we decreased our state tax rate used in calculating the amount of our deferred tax liabilities and recognized a deferred income tax benefit of \$131 million. Also in 2005, we reduced our estimated foreign tax rate related to QVC and recognized a tax benefit of \$16 million. These tax benefits were partially offset by our foreign tax expense and an increase in our valuation allowance for deferred tax

assets of subsidiaries that we do not consolidate for tax purposes. Our effective tax rate in 2004 differed from the U.S. federal income tax rate of 35% primarily due to foreign and state taxes, partially offset by a benefit generated by the recognition of our tax basis in the equity of DMX. Although we had a loss before tax expense for book purposes in 2003, we recorded tax expense of \$342 million primarily due to our impairment of goodwill which is not deductible for tax purposes. In addition, we incurred state and foreign taxes and an increase in our valuation allowance for deferred tax assets of subsidiaries that we do not consolidate for tax purposes.

Net earnings (loss). Our net earnings (loss) was (\$33) million, \$46 million and (\$1,222) million for the years ended December 31, 2005, 2004 and 2003, respectively, and was the result of the above-described fluctuations in our revenue and expenses. In addition, we recognized earnings (loss) from discontinued operations of \$31 million, (\$54) million and \$7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Liquidity and Capital Resources

Corporate

Our sources of liquidity include our available cash balances, cash generated by the operating activities of our privately-owned subsidiaries (to the extent such cash exceeds the working capital needs of the subsidiaries and is not otherwise restricted), proceeds from asset sales, monetization of our public investment portfolio (including derivatives), debt and equity issuances, and dividend and interest receipts.

During the year ended December 31, 2005, our primary corporate use of cash was the retirement of \$1,719 million principal amount of parent company debt for aggregate cash payments of \$1,731 million, plus accrued interest. We made a portion of these debt retirements pursuant to tender offers that we completed in the second quarter of 2005 whereby we purchased \$200 million principal amount of our 3.50% Senior Notes due 2006 and \$800 million principal amount of our Floating Rate Senior Notes due 2006 for aggregate cash payments of \$1,010 million plus accrued interest. We funded the debt repurchases under our tender offer with cash on hand and proceeds from a short-term credit facility collateralized by certain of our derivative instruments. This short-term credit facility was subsequently repaid with proceeds from the QVC credit facility described below.

Our projected uses of cash in 2006 include approximately \$1,400 million to retire our senior notes that mature in September 2006, \$481 million to fund our acquisition of Provide Commerce, Inc. (which was consummated on February 9, 2006), approximately \$465 million for interest payments, approximately \$200 million to fund our acquisition of FUN Technologies plc and approximately \$200 million to fund a secured loan to WildBlue Communications. In addition, we may make additional investments in existing or new businesses. However, we are unable to quantify such investments at this time.

We expect that our investing and financing activities will be funded with a combination of borrowings under the QVC bank credit facility, cash on hand, cash provided by operating activities, proceeds from equity collar expirations and dispositions of non-strategic assets. At December 31, 2005, our sources of liquidity include \$2,335 million in cash and marketable debt securities and \$7,583 million of non-strategic AFS securities, including related derivatives. In addition, we own \$8,171 million of News Corp. common stock and \$1,960 million of IAC/InterActiveCorp common stock, which we consider to be strategic assets. To the extent we recognize any taxable gains from the sale of assets or expiration of derivative instruments, we may incur current tax expense and be required to make tax payments.

Our derivatives ("AFS Derivatives") related to certain of our AFS investments provide us with an additional source of liquidity. Based on the put price and assuming we deliver owned or borrowed

shares to settle each of our AFS Derivatives and excluding any provision for income taxes, we would be entitled to cash proceeds of approximately \$395 million in 2006, \$385 million in 2007, zero in 2008, \$1,180 million in 2009, \$1,683 in 2010, and \$1,312 million thereafter upon settlement of our AFS Derivatives.

Prior to the maturity of our equity collars, the terms of certain of our equity and narrow-band collars allow us to borrow against the future put option proceeds at LIBOR or LIBOR plus an applicable spread, as the case may be. As of December 31, 2005, we had not made any borrowings under these arrangements and the borrowing capacity aggregated approximately \$4,853 million. Such borrowings would reduce the cash proceeds upon settlement noted in the preceding paragraph.

During 2005, each of Standard and Poor's Rating Service, Moody's Investors Service and Fitch Ratings lowered its rating of our senior debt to one level below investment grade. None of our existing indebtedness includes any covenant under which a default could occur as a result of a downgrade in our credit rating. However, such downgrades could adversely affect our access to the public debt markets and our overall cost of future corporate borrowings. Notwithstanding the foregoing, we do not believe that our downgrades have adversely impacted the ability of our subsidiaries to arrange bank financing or our ability to borrow against the value of our equity collars.

Subsidiaries

Effective May 20, 2005, QVC entered into a \$2 billion bank credit facility. The QVC Credit Facility is comprised of an \$800 million term loan that was drawn at closing, a \$400 million U.S. dollar term loan that can be drawn at any time before September 30, 2006, a \$400 million multi-currency term loan that can be drawn at any time before September 30, 2006, a \$200 million U.S. dollar revolving loan and a \$200 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 May 20, 2010, and accrue interest, at the option of QVC, at LIBOR plus an applicable margin or the Alternative Base Rate, as defined in the QVC Credit Facility, plus an applicable margin. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments.

Subsequent to December 31, 2005, the QVC bank facility was refinanced with a new \$3.5 billion bank facility. The new bank facility is comprised of an \$800 million term loan drawn at closing, an \$800 million U.S. dollar term loan that can be drawn at any time before September 30, 2006, a \$600 million multi-currency term loan that can be drawn at any time before September 30, 2006, a \$650 million U.S. dollar revolving loan and a \$650 million multi-currency revolving loan. All loans are due and payable on March 3, 2011.

In 2005, our subsidiaries funded capital expenditures (\$233 million), and the repurchase of certain subsidiary common stock (\$85 million) with cash on hand and cash generated by their operating activities.

Our subsidiaries currently expect to spend approximately \$430 million for capital expenditures in 2006, including \$355 million by QVC. These amounts are expected to be funded by the cash flows of the respective subsidiary.

Equity Affiliates

Various partnerships and other affiliates of ours accounted for using the equity method finance a substantial portion of their acquisitions and capital expenditures through borrowings under their own credit facilities and net cash provided by their operating activities. Notwithstanding the foregoing, certain of our affiliates may require additional capital to finance their operating or investing activities. In the event our affiliates require additional financing and we fail to meet a capital call, or other

commitment to provide capital or loans to a particular company, such failure may have adverse consequences to us. These consequences may include, among others, the dilution of our equity interest in that company, the forfeiture of our right to vote or exercise other rights, the right of the other stockholders or partners to force us to sell our interest at less than fair value, the forced dissolution of the company to which we have made the commitment or, in some instances, a breach of contract action for damages against us. Our ability to meet capital calls or other capital or loan commitments is subject to our ability to access cash.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

SEG has entered into agreements with a number of motion picture producers which obligate SEG to pay fees ("Programming Fees") for the rights to exhibit certain films that are released by these producers. The unpaid balance under agreements for film rights related to films that were available for exhibition by SEG at December 31, 2005 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2005 is payable as follows: \$191 million in 2006; \$11 million in 2007; and \$13 million thereafter.

SEG 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 SEG until some future date. These amounts have not been accrued at December 31, 2005. SEG's estimate of amounts payable under these agreements is as follows: \$539 million in 2006; \$178 million in 2007; \$103 million in 2008; \$95 million in 2009; \$75 million in 2010 and \$52 million thereafter.

In addition, SEG is obligated to pay Programming Fees for all qualifying films that are released theatrically in the United States by studios owned by The Walt Disney Company through 2009, all qualifying films that are released theatrically in the United States by studios owned by Sony Pictures Entertainment through 2010 and all qualifying films produced for theatrical release in the United States by Revolution Studios through 2006. Films are generally available to SEG for exhibition 10 - 12 months after their theatrical release. The Programming Fees to be paid by SEG are based on the quantity and domestic theatrical exhibition receipts of qualifying films. As these films have not yet been released in theatres, SEG is unable to estimate the amounts to be paid under these output agreements. However, such amounts are expected to be significant.

In addition to the foregoing contractual film obligations, each of Disney and Sony has the right to extend its contract for an additional three years. If Sony elects to extend its contract, SEG has agreed to pay Sony a total of \$190 million in four annual installments of \$47.5 million beginning in 2011. This option expires December 31, 2007. If made, SEG's payments to Sony would be amortized ratably over the extension period beginning in 2011. An extension of this agreement would also result in the payment by SEG of Programming Fees for qualifying films released by Sony during the extension period. If Disney elects to extend its contract, SEG is not obligated to pay any amounts in excess of its Programming Fees for qualifying films released by Disney during the extension period.

Liberty guarantees SEG's film licensing obligations under certain of its studio output agreements. At December 31, 2005, Liberty's guarantees for studio output obligations for films released by such date aggregated \$779 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, SEG has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of SEG, a consolidated subsidiary of ours, we have not recorded a separate liability for our guarantees of these obligations.

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

	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
amounts in millions					
<i>Contractual obligations</i>					
Long-term debt(1)	\$ 9,961	1,379	1,773	928	5,881
Long-term derivative instruments	2,099	1,939			160
Interest payments(2)	6,256	463	782	641	4,370
Operating lease obligations	106	27	41	25	13
Programming Fees(3)	1,257	730	305	170	52
Purchase orders and other obligations	1,042	1,029	13		
Total contractual payments	\$ 20,721	5,567	2,914	1,764	10,476

- (1) Includes all debt instruments, including the call option feature related to our exchangeable debentures. Amounts are stated at the face amount at maturity and may differ from the amounts stated in our consolidated balance sheet to the extent debt instruments (i) were issued at a discount or premium or (ii) have elements which are reported at fair value in our consolidated balance sheet. Also includes capital lease obligations. Amounts do not assume additional borrowings or refinancings of existing debt.
- (2) Amounts (1) are based on our outstanding debt at December 31, 2005, (2) assume the interest rates on our floating rate debt remain constant at the December 31, 2005 rates and (3) assume that our existing debt is repaid at maturity.
- (3) Does not include Programming Fees for films not yet released theatrically, as such amounts cannot be estimated.

Since the date we issued our exchangeable debentures, we have claimed interest deductions on such exchangeable debentures for federal income tax purposes based on the "comparable yield" at which we could have issued a fixed-rate debenture with similar terms and conditions. In all instances, this policy has resulted in us claiming interest deductions significantly in excess of the cash interest currently paid on our exchangeable debentures. Interest deducted in prior years on our exchangeable debentures has contributed to net operating losses ("NOLs") that may be carried to offset taxable income in 2005 and later years. These NOLs and current interest deductions on our exchangeable debentures are being used to offset taxable income currently being generated.

The IRS has issued Technical Advice Memorandums ("TAMs") challenging the current deductibility of interest expense claimed on exchangeable debentures issued by other companies. The TAMs conclude that such interest expense must be capitalized as basis to the shares referenced in the exchangeable debentures. If the IRS were to similarly challenge our tax treatment of these interest deductions, and ultimately win such challenge, there would be no impact to our reported total tax expense as the resulting increase in current tax expense would be offset by a decrease in our deferred tax expense. However, the NOLs we have recorded would not be available to offset our current taxable income, and we would be required to make current federal income tax payments. These federal income tax payments could prove to be significant.

Pursuant to a tax sharing agreement between us and AT&T when we were a subsidiary of AT&T, we received a cash payment from AT&T in periods when we generated taxable losses and such taxable losses were utilized by AT&T to reduce its consolidated income tax liability. To the extent such losses were not utilized by AT&T, such amounts were available to reduce federal taxable income generated by

us in future periods, similar to a net operating loss carryforward. While we were a subsidiary of AT&T, we recorded our stand-alone tax provision on a separate return basis. Subsequent to our spin off from AT&T, if adjustments are made to amounts previously paid under the AT&T Tax Sharing Agreement, such adjustments are reflected as adjustments to additional paid-in capital. During the period from March 10, 1999 to December 31, 2002, we received cash payments from AT&T aggregating \$670 million as payment for our taxable losses that AT&T utilized to reduce its income tax liability.

Also, pursuant to the tax sharing agreement and in connection with the split off from AT&T, AT&T was required to pay us an amount equal to 35% of the amount of the net operating loss carryforward ("TCI NOLs") reflected in TCI's final federal income tax return that had not been used as an offset to our obligations under the tax sharing agreement and that had been, or were reasonably expected to be, utilized by AT&T. In connection with the split off, we received an \$803 million payment for the TCI NOLs and recorded such payment as an increase to additional paid-in capital. We were not paid for certain of the TCI NOLs ("SRLY NOLs") due to limitations and uncertainty regarding AT&T's ability to use them to offset taxable income in the future. In the event AT&T was ultimately able to use any of the SRLY NOLs, they would be required to pay us 35% of the amount of the SRLY NOLs used. In the fourth quarter of 2004 and in connection with the completion of an IRS audit of TCI's tax return for 1994, it was determined that we were required to recognize additional taxable income related to the recapitalization of one of our investments resulting in a tax liability of approximately \$30 million. As a result of the tax assessment, we also received a corresponding amount of additional tax basis in the investment. However, we were able to cause AT&T to use a portion of the SRLY NOLs to offset this taxable income, the benefit of which resulted in the elimination of the \$30 million tax liability and an increase to additional paid-in capital.

In the fourth quarter of 2004, AT&T requested a refund from us of \$70 million, plus accrued interest, relating to losses that it generated in 2002 and 2003 and was able to carry back to offset taxable income previously offset by our losses. AT&T has asserted that our losses caused AT&T to pay \$70 million in alternative minimum tax ("AMT") that it would not have been otherwise required to pay had our losses not been included in its return. In 2004, we estimated that we may ultimately pay AT&T up to \$30 million of the requested \$70 million because we believed AT&T received an AMT credit of \$40 million against income taxes resulting from the AMT previously paid. Accordingly, we accrued a \$30 million liability with an offsetting reduction of additional paid-in capital. The net effect of the completion of the IRS tax audit noted above (including the benefit derived from AT&T for the utilization of the SRLY NOLs) and our accrual of amounts due to AT&T was an increase to our deferred tax assets and an increase to our other liabilities.

In the fourth quarter of 2005, AT&T requested an additional \$21 million relating to additional losses it generated and was able to carry back to offset taxable income previously offset by our losses. In addition, the information provided to us in connection with AT&T's request shows that AT&T has not yet claimed a credit for AMT previously paid. Accordingly, in the fourth quarter of 2005, we increased our accrual by approximately \$40 million (with a corresponding decrease to additional paid-in capital) representing our estimate of the amount we may ultimately pay to AT&T as a result of this request. Although we have not reduced our accrual for any future refunds, we believe we are entitled to a refund when AT&T is able to realize a benefit in the form of a credit for the AMT previously paid.

In March 2006, AT&T requested an additional \$21 million relating to additional losses and IRS audit adjustments that it claims it is able to use to offset taxable income previously offset by our losses. We are currently reviewing this claim and have not recorded an accrual for this request in our consolidated financial statements for the year ended December 31, 2005.

Although for accounting purposes we have accrued a portion of the amounts claimed by AT&T to be owed by us under the tax sharing agreement, we believe there are valid defenses or set-off or similar

rights in our favor that may cause the total amount that we owe AT&T to be less than the amounts accrued.

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

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

During the third quarter of 2005, TruePosition entered into an agreement with one of its major customers whereby TruePosition will remove and replace certain location-based equipment supplied by another vendor and currently installed in the customer's network. TruePosition currently estimates that the costs to provide this equipment and service will exceed the revenue earned and that it will incur a loss of approximately \$18 million on the contract. Since this agreement is an executory contract, TruePosition will recognize this loss during the term of the contract as material elements of the contract are delivered. TruePosition entered into this agreement because it believes its appointment as the customer's exclusive provider of these services and the resulting future potential revenue earned from the customer's continuing network build-out and expansion will exceed the loss computed on the contractual arrangement. However, no assurance can be given that future business from this customer will be sufficient to offset the loss incurred on this portion of the contract.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payments*" ("Statement 123R"). Statement 123R, which is a revision of Statement 123 and supersedes APB Opinion No. 25, establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on transactions in which an entity obtains employee services. Statement 123R generally requires companies to measure the cost of employee services received in exchange for an award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the award, and to recognize that cost over the period during which the employee is required to provide service (usually the vesting period of the award). Statement 123R also requires companies to measure the cost of employee services received in exchange for an award of liability instruments (such as stock appreciation rights that will be settled in cash) based on the current fair value of the award, and to remeasure the fair value of the award at each reporting date.

Public companies are required to adopt Statement 123R as of the beginning of the first fiscal year that begins after June 15, 2005, or January 1, 2006 for calendar-year companies such as Liberty. The provisions of Statement 123R will affect the accounting for all awards granted, modified, repurchased or cancelled after December 31, 2005. The accounting for awards granted, but not vested, prior to January 1, 2006 will also be impacted. The provisions of Statement 123R allow companies to adopt the standard on a prospective basis or to restate all periods for which Statement 123 was effective. We

expect to adopt Statement 123R on a prospective basis, and our financial statements for periods that begin after December 31, 2005 will include pro forma information as though the standard had been adopted for all periods presented.

We currently estimate that upon adoption of Statement 123R, we will be required to record a \$125 million charge to earnings (before related income taxes) as the cumulative effect of a change in accounting. Such transition adjustment primarily represents the aggregate differences between the fair value and intrinsic value of our liability awards. In addition, at December 31, 2005, we have approximately \$65 million of unamortized stock based compensation related to equity awards granted prior to January 1, 2006 that will be amortized into our statement of operations over approximately four years.

Critical Accounting Estimates

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

Carrying Value of Investments. Our cost and equity method investments comprise 49% and 45% of our total assets at December 31, 2005 and 2004, respectively. We account for these investments pursuant to Statement of Financial Accounting Standards No. 115, Statement of Financial Accounting Standards No. 142, Accounting Principles Board Opinion No. 18, EITF Topic 03-1 and SAB No. 59. These accounting principles require us to periodically evaluate our investments to determine if decreases in fair value below our cost bases are other than temporary or "nontemporary." If a decline in fair value is determined to be nontemporary, we are required to reflect such decline in our statement of operations. Nontemporary declines in fair value of our cost investments are recognized on a separate line in our statement of operations, and nontemporary declines in fair value of our equity method investments are included in share of losses of affiliates in our statement of operations.

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

Our evaluation of the fair value of our investments and any resulting impairment charges are made as of the most recent balance sheet date. Changes in fair value subsequent to the balance sheet date due to the factors described above are possible. Subsequent decreases in fair value will be recognized in

our statement of operations in the period in which they occur to the extent such decreases are deemed to be nontemporary. Subsequent increases in fair value will be recognized in our statement of operations only upon our ultimate disposition of the investment.

At December 31, 2005, we had unrealized holding losses of \$27 million related to certain of our AFS equity securities.

Accounting for Derivative Instruments. We use various derivative instruments, including equity collars, narrow-band collars, put spread collars, written put and call options, interest rate swaps and foreign exchange contracts, to manage fair value and cash flow risk associated with many of our investments, some of our debt and transactions denominated in foreign currencies. We account for these derivative instruments pursuant to Statement 133 and Statement of Financial Accounting Standards No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." Statement 133 and Statement 149 require that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of our derivatives are included in realized and unrealized gains (losses) on derivative instruments in our statement of operations.

We use the Black-Scholes model to estimate the fair value of our derivative instruments ("AFS Derivatives") that we use to manage market risk related to certain of our AFS securities. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. We obtain volatility rates from independent sources based on the expected volatility of the underlying security over the term of the derivative instrument. The volatility assumption is evaluated annually to determine if it should be adjusted, or more often if there are indications that it should be adjusted. We obtain a discount rate at the inception of the derivative instrument and update such rate each reporting period based on our estimate of the discount rate at which we could currently settle the derivative instrument. At December 31, 2005, the expected volatilities used to value our AFS Derivatives generally ranged from 21% to 27% and the discount rates ranged from 4.8% to 5.0%. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of our derivative instruments may differ from these estimates.

Changes in our assumptions regarding (1) the discount rate and (2) the volatility rates of the underlying securities that are used in the Black-Scholes model would have the most significant impact on the valuation of our AFS Derivatives. The table below summarizes changes in these assumptions and the resulting impacts on our estimate of fair value.

Assumption	Estimated aggregate fair value of AFS Derivatives	Dollar value change
amounts in millions		
As recorded at December 31, 2005	\$ 1,199	
25% increase in discount rate	\$ 1,027	(172)
25% decrease in discount rate	\$ 1,380	181
25% increase in expected volatilities	\$ 1,186	(13)
25% decrease in expected volatilities	\$ 1,212	13

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Carrying Value of Long-lived Assets. Our property and equipment, intangible assets and goodwill (collectively, our "long-lived assets") also comprise a significant portion of our total assets at December 31, 2005 and 2004. We account for our long-lived assets pursuant to Statement of Financial Accounting Standards No. 142 and Statement of Financial Accounting Standards No. 144. These accounting standards require that we periodically, or upon the occurrence of certain triggering events, assess the recoverability of our long-lived assets. If the carrying value of our long-lived assets exceeds their estimated fair value, we are required to write the carrying value down to fair value. Any such writedown is included in impairment of long-lived assets in our consolidated statement of operations. A high degree of judgment is required to estimate the fair value of our long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. In addition, we may obtain independent appraisals in certain circumstances. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Accordingly, any value ultimately derived from our long-lived assets may differ from our estimate of fair value. As each of our operating segments has long-lived assets, this critical accounting policy affects the financial position and results of operations of each segment.

Electronic Retailing Reserves. QVC records reserves for sales returns, inventory obsolescence and allowance for uncollectible receivables. Each of these reserves is estimated based on historical experience. Sales returns are calculated as a percent of sales and are netted against revenue in our statement of operations. For the years ended December 31, 2005 and 2004, sales returns represented 16.5% and 16.1% of QVC's gross revenue, respectively. The inventory obsolescence reserve is calculated as a percent of QVC's inventory at the end of a reporting period, and the change in such reserve is included in cost of goods sold in our statement of operations. At December 31, 2005, QVC's inventory is \$809 million and the obsolescence reserve is \$90 million. QVC's allowance for doubtful accounts is calculated as a percent of accounts receivable at the end of a reporting period, and the change in such allowance is recorded as bad debt expense in our statement of operations. At December 31, 2005, QVC's trade accounts receivable are \$837 million, net of the allowance for doubtful accounts of \$65 million. Each of these reserves requires management judgment and may not reflect actual results.

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

Quantitative and Qualitative Disclosures about Market Risk.

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

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include investments in fixed and floating rate debt instruments and borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We have achieved this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity and (ii) issuing short-term variable rate debt to take advantage of historically low short-term interest rates. As of December 31, 2005, the face amount of our fixed rate debt (considering the effects of interest rate swap agreements) was \$8,203 million, which had a weighted average interest rate of 4.6%. Our variable rate debt of \$1,758 million had a weighted average interest rate of 6.0% at December 31, 2005. Had market interest rates been 100 basis points higher (representing an approximate 16.6% increase over our variable rate debt effective cost of borrowing) throughout the year ended December 31, 2005, we would have recognized approximately \$21 million of additional interest expense.

We are exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. We use equity collars, put spread collars, narrow-band collars, written put and call options and other financial instruments to manage market risk associated with certain investment positions. These instruments are recorded at fair value based on option pricing models. Equity collars provide us with a put option that gives us the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price at a specified date in the future. Equity collars also provide the counterparty with a call option that gives the counterparty the right to purchase the same securities at a specified price at a specified date in the future. The put option and the call option generally have equal fair values at the time of origination resulting in no cash receipts or payments. Narrow-band collars are equity collars in which the put and call prices are set so that the call option has a relatively higher fair value than the put option at the time of origination. In these cases we receive cash equal to the difference between such fair values.

Among other factors, changes in the market prices of the securities underlying the AFS Derivatives affect the fair market value of the AFS Derivatives. The following table illustrates the impact that changes in the market price of the securities underlying our AFS Derivatives would have on the fair market value of such derivatives. Such changes in fair market value would be included in realized and unrealized gains (losses) on financial instruments in our consolidated statement of operations.

	Estimated aggregate fair value			Total
	Equity collars(1)	Put spread collars	Put options	
	amounts in millions			
Fair value at December 31, 2005	\$ 1,408	133	(342)	1,199
5% increase in market prices	\$ 1,270	133	(329)	1,074
10% increase in market prices	\$ 1,133	133	(316)	950
5% decrease in market prices	\$ 1,545	133	(355)	1,323
10% decrease in market prices	\$ 1,683	133	(368)	1,448

(1) Includes narrow-band collars.

At December 31, 2005, the fair value of our AFS securities was \$18,427 million. Had the market price of such securities been 10% lower at December 31, 2005, the aggregate value of such securities

would have been \$1,843 million lower resulting in a decrease to unrealized holding gains in other comprehensive earnings. Such decrease would be partially offset by an increase in the value of our AFS Derivatives as noted in the table above.

In connection with certain of our AFS Derivatives, we periodically borrow shares of the underlying securities from a counterparty and deliver these borrowed shares in settlement of maturing derivative positions. In these transactions, a similar number of shares that we own have been posted as collateral with the counterparty. These share borrowing arrangements can be terminated at any time at our option by delivering shares to the counterparty. The counterparty can terminate these arrangements upon the occurrence of certain events which limit the trading volume of the underlying security. The liability under these share borrowing arrangements is marked to market each reporting period with changes in value recorded in unrealized gains or losses in the consolidated statement of operations. The shares posted as collateral under these arrangements continue to be treated as AFS securities and are marked to market each reporting period with changes in value recorded as unrealized holding gains or losses in other comprehensive earnings. We have recorded a \$1,581 million liability for shares borrowed under these arrangements at December 31, 2005.

We are exposed to foreign exchange rate fluctuations related primarily to the monetary assets and liabilities and the financial results of QVC's foreign subsidiaries. We typically do not hedge our investment in foreign subsidiaries due to the long-term nature of our investment. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated into U.S. dollars at period-end exchange rates, and the statements of operations are translated at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive earnings (loss) as a separate component of stockholders' equity. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at the average rate for the period. Accordingly, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations.

From time to time we enter into total return debt swaps in connection with our purchase of our own or third-party public and private indebtedness. Under these arrangements, we direct a counterparty to purchase a specified amount of the underlying debt security for our benefit. We initially post collateral with the counterparty equal to 10% to 15% of the value of the purchased securities. We earn interest income based upon the face amount and stated interest rate of the purchased securities, and we pay interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying debt securities declines more than a specified percentage, we are required to post cash collateral for the decline, and we record an unrealized loss on financial instruments. The cash collateral is further adjusted up or down for subsequent changes in fair value of the underlying debt security. At December 31, 2005, the aggregate purchase price of debt securities underlying total return debt swap arrangements was \$222 million (\$129 million of which related to our senior notes and debentures). As of such date, we had posted cash collateral equal to \$27 million. In the event the fair value of the purchased debt securities were to fall to zero, we would be required to post additional cash collateral of \$195 million. The posting of such collateral and the related settlement of the agreements with respect to our senior notes and debentures would reduce our outstanding debt by an equal amount.

We periodically assess the effectiveness of our derivative financial instruments. With regard to interest rate swaps, we monitor the fair value of interest rate swaps as well as the effective interest rate the interest rate swap yields, in comparison to historical interest rate trends. We believe that any losses

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

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

execute our derivative instruments with several different counterparties, and

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

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

Our counterparty credit risk by financial institution is summarized below:

Counterparty	Aggregate fair value of derivative instruments at December 31, 2005
	amounts in millions
Counterparty A	\$ 437
Counterparty B	428
Counterparty C	409
Other	510
	<u>\$ 1,784</u>

Interactive Group

Overview

The following discussion and analysis provides information concerning the results of operations and financial condition of the Interactive Group. This discussion should be read in conjunction with our consolidated financial statements and notes thereto included in Part 1 of this Annex B and the description of the Interactive Group found herein under "Description of Business The Interactive Group."

Our board of directors has authorized, subject to shareholder approval, the restructuring proposals which would, among other things, result in the creation of two tracking stocks, one of which is intended to reflect the separate performance of the Interactive Group. The Interactive Group will initially consist of our subsidiary QVC, Inc., our interests in IAC/InterActiveCorp and Expedia and approximately \$4,476 million principal amount of our existing parent debt. In addition, on February 9, 2006, we acquired Provide Commerce, Inc. for \$481 million in cash. We intend to attribute Provide to the Interactive Group.

QVC is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs and, to a lesser extent, via the Internet. Prior to September 2003, we owned approximately 42% of QVC and accounted for such investment using the equity method of accounting. In September 2003, we acquired Comcast Corporation's approximate 56% ownership interest in QVC, Inc., bringing our total ownership in QVC to approximately 98%. Accordingly, since September 2003, we have consolidated the financial position and results of operations of QVC.

Provide operates an e-commerce marketplace of websites for perishable goods, such as flowers, meats and seafood and fruit, that delivers products directly from suppliers to customers at competitive prices. Provide combines an online storefront, proprietary supply chain management technology, established supplier relationships and integrated logistical relationships with delivery companies to create a market platform that bypasses traditional supply chains.

IAC is a multi-brand video and on-line commerce company transacting business worldwide via the Internet, television and the telephone. IAC's portfolio of companies collectively enables direct-to-consumer transactions across many areas, including home shopping, personals, teleservices and local services. We have an approximate 22% ownership interest in IAC and due to certain voting arrangements with the Chairman and CEO of IAC, account for such investment as an available-for-sale security.

Expedia is among the world's leading travel services companies, making travel products and services available to leisure and corporate travelers in the United States and abroad through a diversified portfolio of brands. We have an approximate 20% ownership interest in Expedia and have appointed two of Expedia's nine board members. We account for Expedia using the equity method of accounting.

Results of Operations

As of December 31, 2005, QVC is our only consolidated operating subsidiary that is attributed to the Interactive Group. Accordingly, the Interactive Group's results of operations for the years ended December 31, 2005, 2004 and 2003 include QVC, interest expense related to the attributed parent debt, the income statement impacts of debt-related financial instruments, our share of losses of Expedia and an allocation of our corporate general and administrative expenses.

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, to a lesser extent, via the Internet. In the United States, the programs are aired 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 live 17 hours a day. In October 2003, QVC-Germany increased its daily broadcast time from 19 to 24 hours; and in May 2004, QVC-Japan increased its daily broadcast time from 17 to 24 hours. As more fully described in note 4 to the accompanying consolidated financial statements, we acquired a controlling interest in QVC on September 17, 2003. For financial reporting purposes, the acquisition is deemed to have occurred on September 1, 2003, and we have consolidated QVC's results of operations since that date. Accordingly, increases in the Interactive Group's revenue and expenses for the year ended December 31, 2004 are primarily the result of the September 2003 acquisition of QVC.

The following discussion describes QVC's results of operations for the full years ended December 31, 2005, 2004 and 2003. Depreciation and amortization for periods prior and subsequent to our acquisition of Comcast's interest in QVC are not comparable as a result of the effects of purchase accounting. However, in order to provide a more meaningful basis for comparing the 2005, 2004 and 2003 periods, the operating results of QVC for the four months ended December 31, 2003 have been

combined with the eight months ended August 31, 2003 in the following table and discussion. The combining of predecessor and successor accounting periods is not permitted by generally accepted accounting principles.

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Net revenue	\$ 6,501	5,687	4,889
Cost of sales	(4,112)	(3,594)	(3,107)
Gross profit	2,389	2,093	1,782
Operating expenses	(570)	(497)	(447)
SG&A expenses	(397)	(366)	(322)
Operating cash flow	1,422	1,230	1,013
Stock compensation	(52)	(33)	(6)
Depreciation and amortization	(449)	(437)	(222)
Operating income	\$ 921	760	785

Net revenue for the years ended December 31, 2005, 2004 and 2003 includes the following revenue by geographical area:

Years ended December 31,