LIBERTY MEDIA LLC
Form 10-K
March 24, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

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

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

LIBERTY MEDIA LLC

(Exact name of Registrant as specified in its charter)

State of Delaware (State or other jurisdiction of incorporation or organization)	**20-5272297** (I.R.S. Employer Identification No.)
12300 Liberty Boulevard **Englewood, Colorado** (Address of principal executive offices)	**80112** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

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LIBERTY MEDIA LLC
2008 ANNUAL REPORT ON FORM 10-K

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PART I.

Item 1. Business.

(a)

General Development of Business

Liberty Media LLC is a wholly-owned subsidiary of Liberty Media Corporation ("LMC") and owns interests in subsidiaries and other companies which are engaged in the video and on-line commerce, media, communications and entertainment industries. Through our subsidiaries and affiliates, we operate in North America, South America, Europe and Asia. Our principal businesses and assets include QVC, Inc. and Starz, LLC and interests in The DIRECTV Group, Inc. and Expedia, Inc.

In May 2006, LMC completed a restructuring pursuant to which it was organized as a new holding company, and it became the new publicly traded parent company of Liberty Media LLC, which was formerly known as Liberty Media Corporation. Immediately prior to the restructuring, LMC was a direct, wholly-owned subsidiary of our company.

Recent Developments

In February 2008, we completed our exchange transaction with News Corporation pursuant to which we exchanged our approximate 16% ownership interest in News Corporation for a subsidiary of News Corporation which held an approximate 41% interest in The DIRECTV Group, Inc., three regional sports television networks and approximately $465 million in cash.

In April 2008, we added to our ownership position in The DIRECTV Group, Inc. by purchasing 78.3 million additional shares in a private transaction for cash consideration of $1.98 billion. We funded this purchase with borrowings against a newly executed collar on 110 million shares of DIRECTV common stock. This purchase, combined with share repurchases by DIRECTV, has increased our ownership interest in DIRECTV to approximately 54% as of December 31, 2008. We have entered into a voting agreement with DIRECTV pursuant to which we have agreed to vote our shares of DIRECTV which represent our ownership interest above 47.9% in the same proportion as all DIRECTV shareholders other than our company.

In 2008, we completed several small acquisitions of companies that we believe are complementary and/or accretive to our existing businesses, including RedEnvelope, which is now part of Provide Commerce, and Celebrate Express, which is now part of BuySeasons, Inc.

In 2008 and pursuant to various mechanisms, including tender offers and total return debt swap unwinds, we retired approximately $1,883 million principal amount of our public indebtedness for cash consideration of $1,668 million, including accrued interest.

In August 2008, IAC/InterActiveCorp completed the spin off of four new companies, HSN, Inc., Interval Leisure Group, Inc., Ticketmaster Entertainment, Inc. and Tree.com, Inc., and we now hold an approximate 30% ownership interest in each of these companies.

In December 2008, LMC announced its intention to redeem a portion of its Liberty Entertainment tracking stock for the stock of its newly formed subsidiary, Liberty Entertainment, Inc. We refer to the redemption and the subsequent separation of Liberty Entertainment, Inc. from LMC as the "Split Off." At the time of the Split Off, Liberty Entertainment, Inc. will own our interests in The DIRECTV Group, Inc., Liberty Sports Holdings, LLC, FUN Technologies, Inc., PicksPal, Inc, GSN, LLC and up to $300 million in cash.

* * * * *

Certain statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, product and marketing strategies; new service offerings; our tax sharing

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arrangement with AT&T Corp. and estimated amounts payable under that arrangement; revenue growth and subscriber trends at QVC, Inc. and Starz Entertainment, LLC; QVC's ability to comply with the covenants contained in its credit facilities; anticipated programming and marketing costs at Starz Entertainment; the recoverability of our goodwill and other long-lived assets; counterparty performance under our derivative arrangements; our expectations regarding Starz Media's results of operations for the next two to three years; our projected sources and uses of cash; the estimated value of our derivative instruments; and the anticipated non-material impact of certain contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. In particular, statements under Item 1. "Business," Item 1A. "Risk-Factors," Item 2. "Properties," Item 3. "Legal Proceedings," Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" contain forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- customer demand for our products and services and our ability to adapt to changes in demand;
- competitor responses to our products and services, and the products and services of the entities in which we have interests;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies;
- our future financial performance, including availability, terms and deployment of capital;
- our ability to successfully integrate and recognize anticipated efficiencies and benefits from the businesses we acquire;
- the ability of suppliers and vendors to deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;
- changes in the nature of key strategic relationships with partners, vendors and joint venturers;
- general economic and business conditions and industry trends including the current economic downturn;
- consumer spending levels, including the availability and amount of individual consumer debt;

disruption in the production of theatrical films or television programs due to strikes by unions representing writers, directors or actors;

continued consolidation of the broadband distribution and movie studio industries;

changes in distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand and IP television and their impact on home shopping networks;

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- increased digital TV penetration and the impact on channel positioning of our networks;
- rapid technological changes;
- capital spending for the acquisition and/or development of telecommunications networks and services;
- the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate;
- threatened terrorist attacks and ongoing military action in the Middle East and other parts of the world; and
- fluctuations in foreign currency exchange rates and political unrest in international markets.

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. When considering such forward-looking statements, you should keep in mind the factors described in Item 1A, "Risk Factors" and other cautionary statements contained in this Annual Report. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

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

(b) *Financial Information About Operating Segments*

Through our ownership of interests in subsidiaries and other companies, we are primarily engaged in the video and on-line commerce, media, communications and entertainment industries. Each of these businesses is separately managed.

We identify our reportable segments as (A) those consolidated subsidiaries that represent 10% or more of our consolidated revenue, pre-tax earnings or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of our pre-tax earnings. Financial information related to our operating segments can be found in note 20 to our consolidated financial statements found in Part II of this report.

(c) *Narrative Description of Business*

The following table identifies our more significant subsidiaries and minority investments.

Consolidated Subsidiaries

QVC, Inc.
Starz LLC
  Starz Entertainment, LLC
  Starz Media, LLC
Provide Commerce, Inc.
Backcountry.com, Inc.
Bodybuilding.com, LLC
BuySeasons, Inc.

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Liberty Sports Holdings, LLC
FUN Technologies, Inc.
PicksPal, Inc.
Atlanta National League Baseball Club, Inc.
TruePosition, Inc.
Leisure Arts, Inc.
WFRV and WJMN Television Station, Inc.

Equity and Cost Method Investments

The DIRECTV Group, Inc. (Nasdaq:DTV)
Expedia, Inc. (Nasdaq:EXPE)
IAC/InterActiveCorp (Nasdaq:IACI)
HSN, Inc. (Nasdaq:HSNI)
Interval Leisure Group, Inc. (Nasdaq:IILG)
Ticketmaster Entertainment, Inc. (Nasdaq:TKTM)
Tree.com, Inc. (Nasdaq:TREE)
GSN, LLC
WildBlue Communications, Inc.
Time Warner Inc. (NYSE:TWX)(1)

(1) Represents an available-for-sale security in which we have less than a 5% ownership interest and that we consider a non-strategic financial asset in our portfolio.

QVC, Inc.

QVC, Inc., a wholly-owned subsidiary, markets and sells a wide variety of consumer products in the U.S. and several foreign countries primarily by means of merchandise-focused televised shopping programs and 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 who is knowledgeable about the merchandise, 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 television programs, as well as other items that are available from QVC only via its websites. For the year ended December 31, 2008, approximately 25% of QVC's domestic revenue and approximately 22% 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, 2008, home, apparel/accessories and jewelry accounted for approximately 44%, 37% and 19%, respectively, of QVC's net revenue generated by its United States operations. In 2007, such percentages for home, apparel/accessories and jewelry were 44%, 35% and 21%, respectively. QVC offers products in each of these merchandise groups that are exclusive to QVC, as well as popular brand names and other products also available from other retailers. QVC's 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. "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 international business units each obtain uplinking services from third parties and transmit their programming to non-preemptible transponders on five international satellites. QVC's transponder service agreement for its domestic transponder expires at the end of the life of the satellite, which is currently estimated to be in 2019. QVC's transponder service agreements for its international transponders expire in 2009 through 2012.

QVC enters into long-term affiliation agreements with satellite and telephone companies 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 2009 to 2017. 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 this regard, QVC's affiliation agreement with Comcast Corporation, which accounts for approximately 25% of QVC's U.S. distribution, expires in June 2009.

In return for carrying the QVC signals, each programming distributor in the United States 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 the United Kingdom, Germany and Japan, programming distributors receive an agreed-upon annual fee, a monthly fee per subscriber regardless of the net sales or 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 a result of the ongoing conversion of analog cable customers to digital, channel positioning has become more critical due to the increased channel options on the digital line-up.

QVC's shopping program is telecast live 24 hours a day to approximately 95 million homes in the United States. QVC Shopping Channel reaches approximately 23 million households in the United Kingdom and the Republic of Ireland and is broadcast 24 hours a day with 17 hours of live programming. QVC's shopping network in Germany, reaches approximately 38 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 approximately 22 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. In November 2008, QVC announced the closing of its West Chester, PA call center which will occur in March 2009. 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 33% of all orders taken. QVC has eight distribution centers worldwide and is able to ship approximately 95% 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.

Starz Entertainment, LLC

Starz Entertainment, LLC, a wholly-owned subsidiary, 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. Starz Entertainment's principal service offerings are (1) Starz, which is primarily a first-run movie service that generally includes Starz plus five multiplex 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 additional thematic multiplex channels branded with the Encore name, each of which exhibits movies based upon individual themes. Starz can be purchased by subscribers as an à-la-carte premium service for which subscribers pay a separate monthly charge. Distributors may also package Starz with other premium services. Encore can be purchased by subscribers as part of a digital package, which includes other movie services or a variety of general entertainment digital networks. Distributors may also sell Encore on an à-la-carte basis or packaged with Starz. Starz Entertainment's services also include MoviePlex, a "theme by day" channel featuring a different thematic multiplex channel each day, on a weekly rotation; IndiePlex, featuring art house and independent films; RetroPlex, featuring "classic" movies; Starz On Demand; Encore on Demand; MoviePlex On Demand; high definition feeds of several Starz channels and high definition versions of each of Starz On Demand, Encore On Demand and MoviePlex On Demand. Starz Entertainment also offers Starz Play, an Internet complement to Starz, to cable and telephone companies who offer high speed services and other distributors. As of December 31, 2008, Starz Entertainment had 17.7 million Starz subscribers and 31.7 million Encore subscribers.

Programming networks distribute their services through a number of distribution technologies, including cable television, direct-to-home satellite, broadcast television, telephone networks 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. Premium services may be scheduled or "on-demand." Additionally, single programs or movies may be delivered on a pay-per-view basis for a per program fee. Whether a programming service is basic, premium or pay-per-view, the programmer generally enters into separate multi-year affiliation agreements with those distributors that agree to carry the service. Programmers may also provide their pay-per-view and subscription on-demand services directly to consumers via the Internet. 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 and pay-per-view services do not sell advertising and primarily generate their revenue from subscriber fees.

The majority of Starz Entertainment's revenue is derived from the delivery of premium programming services comprised of movies and original programming to subscribers under affiliation agreements with cable operators, direct broadcast satellite operators and telephone companies, including Comcast Cable, DIRECTV, DISH Network, Time Warner Cable, Charter Communications, Cox Communications, Cablevision Systems, Insight Communications, Mediacom Communications, Verizon Communications, AT&T and the National Cable Television Cooperative. Some of Starz Entertainment's affiliation agreements provide for payments based on the number of subscribers that receive Starz Entertainment's services. Starz Entertainment also has affiliation agreements with certain of its customers 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 increase in the Consumer Price Index. Starz Entertainment's agreement with Comcast requires Comcast to carry the Encore and Thematic Multiplex channels through September 2009 and Starz through December 2012. Starz Entertainment's affiliation agreement with

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DIRECTV continues on a month-to-month basis without limitation provided that either party may terminate the agreement upon 60 days written notice to the other party. DISH Network's affiliation agreement expires in June 2009. In addition, the affiliation agreement with Time Warner expires in December 2009. Starz Entertainment's other affiliation agreements expire between now and June 2015. For the year ended December 31, 2008, 70% of Starz Entertainment's total revenue was generated by its four largest customers, Comcast, DIRECTV, DISH Network and Time Warner, each of which individually generated more than 10% of Starz Entertainment's revenue for such period.

The costs of acquiring rights to programming, including Internet rights, represent Starz Entertainment's largest expense. In order to exhibit theatrical motion pictures, Starz Entertainment enters into agreements to acquire rights from major motion picture producers including Hollywood Pictures, Touchstone Pictures, Miramax Films, Walt Disney Studios, Sony's Columbia Pictures, Screen Gems and Sony Pictures Classics. Starz Entertainment also has exclusive rights to air first-run output from Overture Films, a wholly owned subsidiary of Starz Media. These output agreements expire between 2012 and 2016.

Starz Entertainment uplinks its programming to five non-preemptible, protected transponders on three domestic satellites. Starz Entertainment leases its transponders under long-term lease agreements. At December 31, 2008, Starz Entertainment's transponder leases had termination dates ranging from 2018 to 2021. Starz Entertainment transmits to these transponders from its uplink center in Englewood, Colorado.

Starz Media, LLC

In 2006, we acquired IDT Entertainment from IDT Corp. and renamed it Starz Media. Starz Media's operations include live-action theatrical film production and distribution, home video distribution, live-action television production and distribution, and theatrical and non-theatrical animation and are divided into the following business units: Overture Films, Anchor Bay Entertainment, Proprietary Productions, Film Roman, Toronto Animation Studio and Feature Animation.

Overture Films, a wholly-owned subsidiary of Starz Media, produces and acquires live action theatrical motion pictures for release domestically and throughout the world. Overture distributes its movies theatrically in the United States, and Anchor Bay Entertainment and Proprietary Productions perform home video and television distribution in the United States. Overture has entered into distribution agreements with Paramount Vantage and Alliance Atlantis to distribute its product internationally to the extent Overture controls such rights. Overture's 2008 theatrical releases include *Mad Money, Traitor, Righteous Kill, Nothing Like the Holidays* and *Last Chance Harvey*. All of Overture's films will appear on Starz Entertainment's channels during their pay television windows.

Overture records revenue from the theatrical release of its films. The domestic box office receipts are divided between the theatrical exhibitors and Overture based upon contractual arrangements on a film-by-film basis. Paramount Vantage and Alliance Atlantis contract with foreign distributors and receive a distribution fee for their services. Overture records revenue related to Anchor Bay's distribution of its films net of a reserve for estimated future returns. Overture receives license fees from Starz Entertainment related to the pay television agreement that covers the appearance of Overture's films on Starz Entertainment's channels during their pay television windows. Fees are also earned from both domestic and foreign networks/basic cable channels related to the exploitation of the titles on free television. Other revenue sources include pay-per-view, syndication and exploitation of the titles in a non-theatrical manner such as the Internet and airlines. Significant expenses related to Overture's films include the amortization of film acquisition and production costs and the theatrical print and advertising expenses related to the release of each film, as well as the home video manufacturing and related distribution expenses.

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Starz Media's home video distribution business is operated through its Anchor Bay Entertainment subsidiary, utilizing the Anchor Bay and Manga brands. During 2008, Anchor Bay began distributing Overture titles, including *Mad Money* and *Traitor*. Anchor Bay also distributed Proprietary Production titles during 2008, including *Dead Space Downfall* and *Wow Wow Wubbzy!* Anchor Bay acquires and licenses content for home video distribution from third parties, including *The Grand, Alice Upside Down, Delirious,* and various fitness-related titles. These titles are distributed through regional and national retailers, including Wal-Mart, Target and Best Buy. Generally, these retailers have the right to return unsold products.

Anchor Bay records its revenue net of an allowance for estimated future returns. Anchor Bay pays its licensors, generally on a quarterly basis, (i) a royalty based on a percentage of net sales of the licensed title, (ii) a profit participation based on the net profits (if any) of the licensed title or (iii) retains a distribution fee and remits the net sales less contractually agreed to costs (e.g. manufacturing costs, pick, pack and ship costs, etc.) of the licensed title to the licensor. Anchor Bay markets and advertises each title prior to and during release generally through the use of a combination of television and other media related advertising and discounts, rebates and cooperative advertising with retailers depending on the specific genre or demographic appeal of the title.

Proprietary Productions develops and produces proprietary live-action and animated content for television and direct-to-video/DVD distribution. Proprietary Productions has produced live-action productions for the Sci Fi Network, Independent Film Channel, Lifetime and other cable and broadcast networks. Such productions include *Sands of Oblivion* and *Lost Treasures of the Grand Canyon* for the Sci Fi network, *Z Rock* for Independent Film Channel and *Queen Sized, Wise Gal* and *True Confessions of a Hollywood Starlet* for Lifetime. The proprietary animated series *Wow! Wow! Wubbzy!* is currently being shown on Nick Jr and Noggin. Anchor Bay acts as the home video distributor for Proprietary Productions.

Proprietary Productions receives license fees from networks and basic/pay cable television channels, including Starz Entertainment, related to exploitation of its productions on free or pay television. The productions are also exploited via the Internet. Amortization of production costs represents Proprietary Productions single largest operating expense.

Film Roman develops and produces 2D animated content on a for-hire basis for distribution theatrically and on television. Significant for-hire animation projects at Film Roman include *The Simpsons* TV series and *King of the Hill* TV series for Fox, *The Goode Family* for Media Rights Capital and ABC; and two new series in production for Marvel Entertainment. At its animation studio located in Toronto, Starz Media develops and produces 3D animated content on a for-hire basis and on a proprietary basis for Starz Media's Feature Animation unit. Three major theatrical animated films are currently under production in Toronto on a for-hire basis.

For-hire revenue is recognized for each project based on the percentage of costs incurred-to-date relative to the estimated total costs of the project. Revenue recognized is proportional to the work performed-to-date under the contracts.

Feature Animation develops and produces proprietary animated theatrical films. During the third quarter of 2008, Feature Animation released its second full-length proprietary animated film, *Space Chimps*, in theaters. *Space Chimps* was developed and produced in Vancouver with Vanguard Animation.

Domestically, Feature Animation has used Twentieth Century Fox to market and distribute its proprietary theatrical animated films, while internationally it uses foreign sales agents to contract with foreign distributors. The domestic box office receipts are divided between the theatrical exhibitors and Feature Animation based upon negotiated contractual arrangements on a film-by-film basis. Fox and the foreign sales agents are paid a distribution fee for their services. The foreign sales agents negotiate with distributors on a territory-by-territory basis with some contracts requiring minimum guarantees.

As mentioned above, in the U.S., Overture and Feature Animation incur significant marketing, advertising and print costs before and during the theatrical release of a film in an effort to generate awareness of the film, to increase the consumer's intent to view the film, and to generate significant consumer interest in subsequent home video and other ancillary markets. These costs are expensed as incurred. Therefore, Starz Media incurs losses prior to theatrical release of a film. The foreign distributors are normally responsible for the marketing and advertising of films in each of their respective territories.

Starz Entertainment and Starz Media are both wholly-owned subsidiaries of our subsidiary, Starz, LLC. We believe that Starz LLC will provide opportunities to exploit all the key domestic and international video distribution vehicles: theatrical, free and premium television, home video, syndication and Internet. Starz, LLC will have the opportunity to test new programming ideas on a single platform and then migrate the successful ones to other distribution outlets.

Provide Commerce, Inc.

Provide Commerce, Inc., a wholly-owned subsidiary that we acquired in February 2006, operates an e-commerce marketplace of websites that offers high-quality perishable products direct from suppliers to consumers. In addition to its perishable products, Provide Commerce sells a wide range of unique and personalized gifts through its RedEnvelope brand, which it acquired in 2008. 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 from the sale of flowers and plants on its proflowers.com website and from the sale of gourmet foods from its branded websites: Cherry Moon Farms, for fresh premium fruits; Secret Spoon, for fresh sweets and confections; and Shari's Berries, for chocolate-dipped berries and related gifting products. 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.

Provide Commerce initially launched its marketplace to sell and deliver flowers. Provide Commerce later expanded its offerings to include fresh premium fruits and confections. The sale of flowers continues to be Provide Commerce's most significant product comprising approximately 83% of its sales in 2008. The sale of flowers is seasonal with nearly 70% of sales coming in the first and second quarters of the year due largely to purchases for Valentine's Day and Mother's Day. Provide Commerce depends on three suppliers for approximately 53% of its floral products. The loss of any of these suppliers could adversely impact Provide Commerce.

Provide Commerce believes that one of the keys to its success is its ability to deliver products on time and fresher than its competitors thereby providing a better value for its customers. Provide Commerce maintains a customer service center located at its corporate headquarters to respond to customer phone calls and emails 24 hours a day, seven days a week.

Backcountry.com, Inc.

We acquired 81% of the equity of Backcountry.com, Inc. in June 2007. Backcountry is an e-commerce marketplace for outdoor adventure, cycling and action sports gear and clothing. Its eight separate websites each cater to different outdoor enthusiasts. Two of the sites offer name-brand products at retail prices, and six offer substantial discounts to online shoppers.

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Backcountry's primary site, Backcountry.com, offers over 400 brands and 150,000 items of high-end gear and clothing for backpacking, camping, trail running, skiing, cycling, rock climbing, kayaking and other outdoor sports. Backcountry's snowboarding-specific site, DogFunk.com, sells technical and lifestyle apparel and gear from established brands and niche manufacturers. Backcountry's online outlet store, BackcountryOutlet.com, sells discounted clothing and gear from past seasons. Backcountry's one-deal-at-a-time sites, SteepandCheap.com, WhiskeyMilitia.com, Tramdock.com, Chainlove.com and BonkTown.com, feature a limited quantity of one highly discounted item at a time until such item sells out, at which time it is immediately replaced with a new item. SteepandCheap.com serves backcountry adventurers and outdoor enthusiasts. WhiskeyMilitia.com appeals to skateboarders, surfers, snowboarders and wakeboarders. Tramdock.com is for resort, park, pipe and big mountain freeride skiers. Chainlove.com is geared toward mountain bikers. BonkTown.com sells road bike gear.

Backcountry's business is seasonal, with approximately 50% of its revenue earned in the fourth quarter. Backcountry stores and ships all inventory from its distribution centers, located in Salt Lake City, Utah. Staffing for the customer service center and warehouse is scalable, and Backcountry employs seasonal labor to react to higher volume during peak periods of the year.

Bodybuilding.com, LLC

On December 31, 2007, we acquired 83% of Bodybuilding.com, LLC. Bodybuilding.com is an Internet retailer of sports, fitness and nutritional supplements. It also hosts an informational SuperSite which answers questions about fitness, work-out programs, overall health, nutritional and product information. The online e-retail model combines expert information and advice with an array of nutritional supplements and a mission to help every customer reach their personal fitness goals.

Bodybuilding.com's customers include gym goers, sport specific focused athletes such as football players, tri-athletes, weightlifters and bodybuilders, and the average man or woman wanting to improve his or her overall mental or physical wellbeing. Bodybuilding.com launched its primary web-site in 1999 and now boasts over 25,000 pages of free, editorial content with health and fitness advice attracting over one million annual customers and hosting the industry's largest forum with over 1.3 million members. Bodybuilding introduced the social network, BodySpace, one year ago and now has more than 240,000 members. Bodybuilding.com is one of the world's largest online suppliers with over 8,000 different items of nutritional supplements including muscle-builders, protein and fat-loss supplements that are commonly used in fitness training.

Bodybuilding.com earns revenue primarily from the sale of nutritional supplements, gym clothing and accessories, and training and nutritional books and videos on its website. Bodybuilding.com's business is slightly seasonal with the first quarter of the year being its busiest as people start to implement their New Year's resolutions regarding improved health and fitness.

BuySeasons, Inc.

BuySeasons, Inc., a wholly-owned subsidiary that we acquired in August 2006, operates BuyCostumes.com and CelebrateExpress.com, on-line retailers of costumes, accessories and party supplies for a wide variety of celebration and costuming events. Celebrate Express was acquired by BuySeasons in 2008. BuySeasons earns revenue from the sale of its products to retail customers who order from its websites and, to a lesser degree, through its fulfillment sales to other retailers. BuySeasons has exclusive arrangements to purchase costumes and accessories that are only available from BuySeasons and works with manufacturers to design costumes and accessories for which BuySeasons has exclusive rights for a predetermined period of time. Additionally, BuySeasons has several exclusive license agreements for party supplies which are developed and manufactured by BuySeasons. These items are primarily distributed through the Celebrate Express brands. While over 75% of BuySeason's products are also available from other on-line and traditional brick-and-mortar

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retailers, BuySeasons believes that no other single retailer offers the range of costume and party accessories that BuySeasons offers to its customers. BuySeasons purchases its products from various suppliers, both domestic and international. BuySeasons depends on three suppliers for approximately 35% of its costumes, accessories, and party supplies. The loss of any of these suppliers could adversely impact BuySeasons.

BuySeasons believes that it has a competitive advantage due to the combination of a large assortment of on-line products, value pricing and a high level of customer service. BuySeason's business is highly seasonal with over 70% of its revenue earned in September and October leading up to Halloween. With the acquisition of Celebrate Express, BuySeasons expects the seasonality to be decreased due to a significantly higher birthday business which is less seasonal. BuySeasons maintains a customer service center at its corporate headquarters, and customer service representatives are available 18 hours a day, seven days a week during its busy season to respond to customer questions. The customer service center and warehouse staffing is scalable, and BuySeasons employs seasonal labor to react to higher volume during the peak Halloween season.

Liberty Sports Holdings, LLC

As part of the exchange transaction with News Corporation in February 2008, we acquired interests in three regional sports networks, or RSNs: Fox Sports Net Rocky Mountain, LLC, Fox Sports Net Northwest, LLC and Fox Sports Net Pittsburgh, LLC. We sometimes refer to our three RSNs as Liberty Sports Group. Each RSN is currently affiliated with Fox Sports Net, Inc., a subsidiary of News Corporation, and receives "back drop" national programming from Fox Sports such as The Best Damn Sports Show Period and Chris Myers Interviews. The RSNs will continue to receive national programming from Fox Sports under agreements which last through 2011.

Each RSN operates a regional video programming network devoted to local professional sports teams and college sporting events, and produces its own local programming, employing or hiring the necessary on-air talent and technical personnel to produce and uplink game telecasts. Local programming is supplemented with the national "back drop" programming of Fox Sports. Each RSN is party to regional professional team rights agreements that provide for exclusive regional distribution of the various games under agreements which last through 2012 to 2020.

FSN Rocky Mountain reaches approximately 2.6 million subscribers in Colorado, Utah, Wyoming, Montana, southern Idaho, western Nebraska, western Kansas and northeastern Nevada. It has regional rights to the Colorado Rockies and Utah Jazz, to sporting events at the University of Colorado, Colorado State and the University of Denver and to Big 12 Conference football and women's basketball.

FSN Northwest reaches approximately 3.3 million subscribers in Washington, Oregon, Idaho, Montana, Alaska, parts of Wyoming and parts of northern Nevada. Its programming includes the Seattle Mariners, the University of Washington, Washington State University, Oregon State University and Gonzaga University and other PAC-10 Conference football and basketball.

FSN Pittsburgh reaches approximately 2.3 million subscribers in Pennsylvania, West Virginia, Ohio, and western Maryland. Its programming includes the Pittsburgh Pirates, Pittsburgh Penguins, collegiate games of the University of Pittsburgh and West Virginia University and various local programming.

The RSNs derive revenue from fees paid by cable and DTH operators pursuant to affiliation agreements entered into with the RSNs and the sale of advertising time to local and national advertisers. The RSNs' affiliation agreements expire between now and 2011. For the year ended December 31, 2008, each of FSN Rocky Mountain and FSN Northwest derived more than 10% of its total revenue from affiliation agreements with each of Comcast, DIRECTV and DISH Network, and FSN Pittsburgh derived more than 10% of its revenue from its affiliation agreement with Comcast.

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FUN Technologies, Inc.

FUN Technologies, Inc., a wholly-owned subsidiary, develops and distributes online skill, casual and fantasy sports games. FUN's Games division operates a skill game offering, which includes pay-for-play, person-to-person and tournament-based interactive skill and free games. FUN's Fantasy Sports division develops and provides fantasy sports services, which include fantasy sports games, editorial content and games provided to third parties under private-label distribution arrangements.

FUN's Games division offers a range of free and tournament games of skill through its own websites, including WorldWinner.com and Teagames.com, and through its distribution partners. Skill games are games in which a participant pays an entry fee to compete in tournaments against other participants for a prize, and in which the winner is determined based on the skill of the competitor rather than on random elements of chance. FUN offers versions of common casual games such as Bejeweled® 2, branded content such as Scrabble® Cubes as well as internally developed games. FUN also provides co-branded tournament platforms to large interactive entertainment groups, including AOL, EA Pogo, MyPoints, MSN and GSN. FUN's Games division generates revenue through fees charged for hosting online tournaments and digital advertising sales.

FUN's Fantasy Sports division develops, operates and licenses fantasy sports games, fantasy sports league-hosting software and fantasy sports content delivered via broadband. Through FUN's own websites, including Fanball.com, CDMSports.com, RotoTimes.com, and Fantasycup.com, FUN Fantasy Sports operates over 50 salary-cap and draft-style fantasy games for football, baseball, basketball, hockey, golf and auto racing enthusiasts and has private-label game distribution agreements with Comcast, Speed Channel, The Golf Channel and NBC/Rotoworld, among others. FUN Fantasy Sports also has content distribution agreements with Comcast, Fox Sports, AOL, SI.com, and The Golf Channel, among others. FUN's Fantasy Sports division derives revenue through fees collected from participants in online fantasy sports contests, licensing of premium content, advertising and the design and operation of fantasy sports websites for third parties.

PicksPal, Inc.

PicksPal is a 73% owned subsidiary that provides free online games, information and entertainment for sports fans. PicksPal operates PicksPal.com, a website created as a virtual gathering place for sports fans that focuses on major national sports. PicksPal.com uses elements of social networking to create a competitive outlet for sports fans and their friends. PicksPal also operates three interactive regional sports portals similar to PicksPal.com for Liberty Sports Holdings (nw.fsninsider.com, rm.fsninsider.com and pitt.fsninsider.com). PicksPal's revenue comes from advertising and sponsorship on its websites and the development and operation of sports websites for third parties.

Atlanta National League Baseball Club, Inc.

Atlanta National League Baseball Club, Inc., or ANLBC, is a wholly owned subsidiary that we acquired in May 2007. It owns and operates the Atlanta Braves Major League Baseball franchise. The Atlanta Braves have been one of the most successful Major League baseball clubs over the past 18 years, with 14 divisional titles, five National League pennants and one World Series win during that time. Turner Field, which is leased from the City of Atlanta and Fulton County Recreation Authority, is the home stadium of the Atlanta Braves. Turner Field is located just outside the downtown area of Atlanta and offers a range of activities and eateries for fans, from interactive gaming and cartoon characters to social gathering places such as the Braves Chop House.

ANLBC derives revenue from the sale of tickets for games played at Turner Field, as well as from game-day sales of concessions and other goods and services in and around Turner Field. ANLBC also derives substantial revenue from the sale of broadcasting rights to the Atlanta Braves baseball games.

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ANLBC has long-term local broadcasting agreements with Turner Broadcast System, Turner Regional Entertainment Network, Inc., Sportsouth Network, Ltd. and Clear Channel, and through Major League Baseball ("MLB"), has entered into national broadcasting agreements with ESPN, Turner Broadcasting System, Inc. and Fox Sports.

As the owner of a MLB franchise, ANLBC must abide by rules promulgated by the MLB Commissioner and comply with MLB's constitution and bylaws. Under the MLB rules, each MLB franchise participates in the MLB Central Fund, which acts as a conduit of centrally derived revenue (primarily from national broadcast agreements) to the clubs. In addition, each franchise is required to share locally derived revenue with the other MLB franchises and their owners through MLB's revenue sharing plan. Also under the MLB rules, each MLB franchise is required to participate in and contribute to certain profit sharing initiatives, such as MLB Advanced Media L.P., MLB's interactive media and internet company which runs MLB's official website and all of the MLB teams' websites.

In addition to the Atlanta Braves, ANLBC owns and operates a baseball academy in the Dominican Republic and certain minor league baseball clubs.

TruePosition, Inc.

TruePosition, Inc. is a wholly owned subsidiary that develops and markets technology for locating wireless phones and other wireless devices enabling wireless carriers, application providers and other enterprises to provide E-911 services domestically and other location-based services to mobile users both domestically and worldwide. "E-911" or "Enhanced 911" refers to a Federal Communications Commission mandate requiring wireless carriers to implement wireless location capability. AT&T (formerly Cingular Wireless) began deploying TruePosition's technology in late 2002, and T-Mobile USA began deploying such technology in 2003. Both wireless carriers are deploying TruePosition's technology and using the technology for E-911. In addition, as of December 31, 2008, five smaller wireless carriers had deployed or are deploying TruePosition's technology.

TruePosition earns revenue from the sale of hardware and licensing of software required to generate location records for wireless phones and other wireless devices 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 contractual rights to earn additional revenue from its deployed product base if its customers use such deployed equipment to provide commercial services. However, to date, TruePosition has not earned any significant revenue from other location-based services. Substantially all of TruePosition's reported revenue in 2005 and 2006 was derived from AT&T. In November 2006, TruePosition amended its contract with AT&T to include, among other things, delivery of specified elements in the future. In accordance with the software revenue recognition rules under generally accepted accounting principles, TruePosition ceased recognition of certain revenue from AT&T pending delivery of the specified elements. Recognition of revenue earned from T-Mobile is similarly deferred pending delivery of specified elements, which to date have not been delivered.

TruePosition's location system is a passive network overlay system designed to enable mobile wireless service providers to determine the location of all network wireless devices, including cellular and PCS telephones. Using its patented uplink time difference of arrival (U-TDOA) and angle of arrival (AOA) technology, TruePosition's location system calculates the latitude and longitude of a designated wireless telephone or transmitter and forwards the information in real time to application software. TruePosition's offerings cover major wireless air interfaces including Time Division Multiple Access (TDMA), Advanced Mobile Phone System (AMPS), Code Division Multiple Access (CDMA) and Global System Mobile (GSM).

TruePosition has begun to invest in the development of new location-based services and technologies through its subsidiaries Zoombak, Useful Networks and EmFinders. Zoombak has developed and started selling GPS car, pet and universal locator devices and services. Useful Networks develops and markets mobile location technology products to end users via the Internet and mobile carriers. Useful Networks powers cross-carrier location aggregation for both wireless carriers and content providers. EmFinders develops and markets accurate, affordable and rapidly deployable location technology devices used to locate lost individuals and high value assets.

Leisure Arts, Inc.

Leisure Arts, Inc., a wholly-owned subsidiary that we acquired in May 2007, is a producer and distributor of lifestyle and instructional publications and crafting accessories. It publishes and markets how-to books, leaflets, DVDs, webcasts and online e-newsletters on topics such as cross stitching, knitting, crochet, quilting, scrapbooking, paper crafting and other crafts, decorative painting, other needlework, sewing and holiday decorating. From its 150,000 square foot distribution center located in Little Rock, Arkansas, Leisure Arts ships both its own publications as well as those of other publishers of how-to books and other media. Leisure Arts publications are sold in craft and fabric chain stores, discounters and general merchandise chain stores as well as in bookstores and home and garden stores. Sales are also derived from consumers visiting Leisure Arts' websites including LeisureArts.com, The LeisureBoutique.com, TwoPeasInABucket.com and LeisureArtsLibrary.com. Leisure Arts derives revenue primarily from the sale of its publications and products. For the year ended December 31, 2008, Leisure Arts derived more than 67% of its revenue from three customers, each of which generated more than 10% of Leisure Arts' revenue.

WFRV and WJMN Television Station, Inc.

WFRV and WJMN Television Station, Inc., or WFRV TV Station, a wholly-owned subsidiary that we acquired in April 2007, operates two full power television stations: WFRV-TV, in Green Bay, Wisconsin, and WJMN-TV, in Escanaba, Michigan. WFRV TV Station has entered into an affiliation agreement with CBS Broadcasting Inc., which allows both stations to broadcast program offerings of the CBS Television Network in return for a fee and for each station's commitment to air CBS programming at specific times. This agreement expires in 2014. Both stations also license programs from various producers and distributors and produce their own news and broadcast public affairs, sports and other programming to serve their local markets. WFRV TV Station has the right to broadcast certain Green Bay Packers' preseason games and related programming under an agreement with Green Bay Packers Inc. which expires in 2012.

WFRV TV Station generates most of its revenue by the sale of local and national advertising time during the stations' over the air broadcasts and on the stations' websites.

The DIRECTV Group, Inc.

The DIRECTV Group, Inc. is a leading provider of digital television entertainment in the United States and Latin America. Its two business segments, DIRECTV U.S. and DIRECTV Latin America, which are differentiated by their geographic location, are engaged in acquiring, promoting, selling and/or distributing digital entertainment programming via satellite to residential and commercial subscribers.

DIRECTV U.S. DIRECTV Holdings LLC and its subsidiaries, which we refer to as DIRECTV U.S., is the largest provider of direct-to-home, or DTH, digital television services and the second largest provider in the multi-channel video programming distribution, or MVPD, industry in the United States. As of December 31, 2008, DIRECTV U.S. had over 17.6 million subscribers.

DIRECTV Latin America. DIRECTV Latin America, or DTVLA, is a leading provider of DTH digital television services throughout Latin America. DTVLA is comprised of: PanAmericana, which provides services in Venezuela, Argentina, Chile, Colombia, Puerto Rico and certain other countries in the region through DIRECTV's wholly-owned subsidiary, DIRECTV Latin America, LLC, or DLA LLC; its 74% owned subsidiary, Sky Brasil Servicos Ltda., which we refer to as Sky Brazil; and its 41% equity method investment in Innova, S. de R.L. de C.V., or Sky Mexico. As of December 31, 2008, PanAmericana had approximately 2.0 million subscribers, Sky Brazil had approximately 1.6 million subscribers and Sky Mexico had approximately 1.8 million subscribers.

DIRECTV U.S. DIRECTV U.S. provides over 17.6 million subscribers with access to hundreds of channels of digital-quality video pictures and CD-quality audio programming that it transmits directly to subscribers' homes or businesses via high-powered geosynchronous satellites.

DIRECTV believes it provides one of the most extensive collections of programming available in the MVPD industry. DIRECTV currently distributes more than 2,000 digital video and audio channels, including about 200 basic entertainment and music channels, 40 premium movie channels, over 50 regional and specialty sports networks, over 125 Spanish and other foreign language special interest channels, over 31 pay-per-view movie and event choices, and about 130 national high definition, or HD, television channels. Although it distributes over 1,500 local channels over 500 in high-definition a subscriber generally receives only the local channels in the subscriber's home market. As of December 31, 2008, DIRECTV provided local channel coverage in standard definition to approximately 150 markets, covering about 95% of U.S. television households. In addition, DIRECTV provided HD local channels in 119 markets representing approximately 89% of U.S. TV households. With the expected launch of an additional satellite in 2009, DIRECTV expects to extend its advantage of having the most HD channels in the industry.

DIRECTV also provides premium professional and collegiate sports programming such as the NFL SUNDAY TICKET package, which allows subscribers to view the largest selection of NFL games available each Sunday during the regular season. Under its contract with the NFL, DIRECTV has exclusive rights to provide this service through the 2010 season, including rights to provide related HD, interactive and mobile services.

To subscribe to the DIRECTV® service, subscribers acquire receiving equipment from either DIRECTV, its national retailers, independent satellite television retailers or dealers, or regional telephone companies, which we refer to as telcos. Most set-top receivers provided to new and existing subscribers are leased subsequent to the introduction of a lease program on March 1, 2006.

The receiving equipment consists of a small receiving satellite dish antenna, a digital set-top receiver and a remote control, which we refer to as a DIRECTV® System. After acquiring and installing a DIRECTV System, subscribers activate the DIRECTV service by contacting DIRECTV and subscribing to one of its programming packages.

DIRECTV LATIN AMERICA DTVLA is the leading provider of DTH digital television services throughout Latin America and the Caribbean, which includes Puerto Rico. DTVLA provides a wide selection of high-quality local and international programming under the DIRECTV and SKY brands. DTVLA provides services in PanAmericana and Brazil from leased transponders on two satellites. In January 2008, DIRECTV successfully transferred the broadcast of its Sky Brazil service to leased transponders on a new satellite, as the prior satellite was nearing the end of its useful life. Sky Mexico provides its services from leased transponders on a separate satellite. Currently, none of these satellites has a backup, although DIRECTV recently completed negotiations for the construction and launch of a backup satellite that would serve Brazil and Mexico. It is scheduled for launch in late 2009.

DIRECTV earns revenue primarily from monthly fees charged to subscribers for subscriptions to basic and premium channel programming, pay-per-view programming, seasonal and live sporting events, DVR and HD programming fees. DIRECTV also earns revenue from monthly fees charged to subscribers with multiple non-leased set-top receivers, monthly fees charged to subscribers for leased set-top receivers, hardware revenue from subscribers who purchase set-top receivers from DIRECTV, DIRECTV's published programming guide, warranty service fees and advertising services.

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.com, Hotels.com, Hotwire.com, Egencia, Classic Vacations and TripAdvisor 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 and from advertising on its websites.

We indirectly own an approximate 24% equity interest and a 58% voting interest in Expedia. We have entered into governance arrangements pursuant to which Mr. Barry Diller, Chairman of the Board and Senior Executive Officer of Expedia, has voted our shares of Expedia, subject to certain limitations. Also through our governance arrangements with Mr. Diller, we have the right to appoint and have appointed 20% of the members of Expedia's board of directors, which is currently comprised of 10 members.

IAC/InterActiveCorp

IAC is a leading internet company with more than 35 fast-growing, highly-related brands serving loyal consumer audiences. The core of IAC relates to the way its brands interact to create a better experience for its customers. It also references the interaction that takes place between consumers and their computers and mobile phones with the advent of the Internet. IAC was founded on the idea that this kind of "interactivity" would transform the way consumers access and use products and services, creating new markets and ways of doing business never before imagined. IAC's Internet sites include ask.com, citysearch, evite, match.com and servicemagic.

On August 21, 2008, IAC completed its previously announced plan to separate into five publicly traded companies:

- IAC;
- HSN, Inc.;
- Ticketmaster Entertainment, Inc.;
- Interval Leisure Group, Inc.; and
- Tree.com, Inc.

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As of January 30, 2009, we indirectly own an approximate 27% equity interest and a 60% voting interest in IAC. Pursuant to certain governance arrangements between Mr. Barry Diller, Chairman of the Board and CEO of IAC, and our company, Mr. Diller votes our shares of IAC, subject to certain limitations, and we have the right to appoint and have appointed two of the 12 members of IAC's board of directors.

HSN, Inc.

HSN became a public company in August 2008 in connection with the separation of IAC into five separate companies. HSN is an interactive lifestyle network and retail destination, offering a curated assortment of exclusive products combined with top brand names. HSN incorporates experts, entertainment, inspiration, solutions, tips and ideas to provide an entirely unique shopping experience for its customers. On HSN and hsn.com, customers will find exceptional selections in Health & Beauty (e.g. M. Asam, Carol's Daughter, Clarins, Eyes by Design, HoMedics, Andrew Lessman, Tony Little, Ken Paves, Perlier, Sephora, ybf Cosmetics); Jewelry (e.g. Heidi Daus, Myrka Dellanos, R.J. Graziano, IMAN Global Chic, MichaeLisa, Noir, Amedeo Scognamilio, Tori Spelling); Home/Lifestyle (e.g. Nate Berkus, Bissell, Colin Cowie, Dyson, Todd English, GreenPan with Thermolon, Emeril Lagasse, Joy Mangano, MoMA Design Store, Wolfgang Puck, John Robshaw); Fashion/Accessories (e.g. Loulou de la Falaise, Carlos Falchi, Patricia Field, Diane Gilman, Tina Knowles, Adrienne Landau, Debbie Shuchat, Sharif, Heidi Weisel); and Electronics (e.g. Canon, Gateway, GE, HP, JVC, Kodak, LG, Samsung).

As of December 31, 2008, we own approximately 30% of the outstanding common stock of HSN. We have entered into an agreement with HSN pursuant to which, among other things, we have the right to appoint 20% of the members of HSN's board of directors. We have appointed 2 of the current 9 board members.

Interval Leisure Group, Inc.

Interval Leisure Group is another of the companies spun off by IAC in August 2008. Interval Leisure Group is a leading global provider of membership and leisure services to the vacation industry. Its principal business, Interval, has offered its resort developer clients and consumer members high-quality programs and services for more than 30 years. Its approximately two million member families have access to a comprehensive package of year-round benefits, including the opportunity to trade the use of their shared ownership vacation time for comparable accommodations within the network's more than 2,400 resorts in over 75 countries. Interval Leisure Group's other business segment is ResortQuest Hawaii, which provides vacation rental and property management services for more than 4,500 units throughout the Hawaiian islands. Interval Leisure Group is headquartered in Miami, Florida, and operates through 27 offices in 16 countries.

As of December 31, 2008, we own approximately 30% of the outstanding common stock of Interval Leisure Group. We have entered into an agreement with Interval Leisure Group pursuant to which, among other things, we have the right to appoint 20% of the members of Interval Leisure Group's board of directors. We have appointed 2 of the current 9 board members.

Ticketmaster Entertainment, Inc.

Ticketmaster Entertainment is also one of the companies spun off by IAC in August 2008. Ticketmaster Entertainment consists of Ticketmaster and Front Line Management Group. As one of the world's leading live entertainment ticketing and marketing company, Ticketmaster connects the world to live entertainment. Ticketmaster operates in 20 global markets, providing ticket sales, ticket resale services, marketing and distribution through *http://www.ticketmaster.com*, one of the largest e-commerce sites on the Internet; approximately 6,700 retail outlets; and 19 worldwide call centers.

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Established in 1976, Ticketmaster serves more than 10,000 clients worldwide across multiple event categories, providing exclusive ticketing services for leading arenas, stadiums, professional sports franchises and leagues, college sports teams, performing arts venues, museums, and theaters. In 2007, the company sold more than 141 million tickets valued at over $8.3 billion on behalf of its clients. Ticketmaster Entertainment acquired a controlling interest in Front Line Management Group in October 2008. Founded by Irving Azoff and Howard Kaufman in 2004, Front Line is a leading artist management company, with nearly 200 clients and more than 80 executive managers. Front Line represents a wide range of major artists, including the Eagles, Jimmy Buffett, Neil Diamond, Van Halen, Fleetwood Mac, Christina Aguilera, Stevie Nicks, Aerosmith, Steely Dan, Chicago, Journey, and Guns N' Roses. Ticketmaster Entertainment, Inc. is headquartered in West Hollywood, California.

As of December 31, 2008, we own approximately 30% of the outstanding common stock of Ticketmaster. We have entered into an agreement with Ticketmaster pursuant to which, among other things, we have the right to appoint 20% of the members of Ticketmaster's board of directors. We have appointed 3 of the current 13 board members.

Tree.com, Inc.

Tree.com was also spun off by IAC in August 2008. Tree.com, Inc. is the parent of several brands and businesses in the financial services and real estate industries including LendingTree, LendingTree Loans(sm), GetSmart.com, HomeLoanCenter.com, RealEstate.com, iNest.com, and RealEstate.com, REALTORS(r). Together, they serve as an ally for consumers who are looking to comparison shop loans, real estate and other financial products from multiple businesses and professionals who compete for their business. Tree.com, Inc. is headquartered in Charlotte, North Carolina and maintains operations solely in the United States.

As of December 31, 2008, we own approximately 30% of the outstanding common stock of Tree.com. We have entered into an agreement with Tree.com pursuant to which, among other things, we have the right to appoint 20% of the members of Tree.com's board of directors. We have not yet exercised this right.

GSN, LLC

Game Show Network, LLC owns and operates the GSN television network. With approximately 68 million Nielsen subscribers as of December 31, 2008, GSN is a basic cable network dedicated to game-related programming and online casual games. GSN offers 24-hours per day of original and acquired programming, featuring game shows and game-related programs, including live and pre-produced participatory programs in which viewers can win prizes by playing along at home. GSN.com is an ad-supported website featuring many of the most popular casual games, online versions of game shows and the free and skill games offered by FUN's games division.

GSN's revenue is primarily derived from the delivery of its programming to subscribers under long-term affiliation agreements with cable systems, direct broadcast satellite systems and Telco video providers 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 2012. While they continue to distribute GSN to subscribers, GSN is currently out of contract with DIRECTV and Cablevision, distributors that account for approximately 25% and 5%, respectively, of GSN's current subscriber base. GSN is in negotiations for the renewal of the DIRECTV and Cablevision contracts.

We and Sony Pictures Entertainment, a division of Sony Corporation of America, which is a subsidiary of Sony Corporation, each own 50% of Game Show Network, 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 in the Ka spectrum band using a 26-inch outdoor unit and satellite modem. WildBlue has a prepaid license for Ka-band capacity on Anik F2, which was launched in July 2004. WildBlue owns outright its second satellite, WildBlue-1, which was launched in December 2006. Both of WildBlue's satellites are geo stationary satellites. The expected life of Anik F2 and WildBlue-1 is approximately 15 years and 12 years, respectively.

WildBlue launched its retail and wholesale service offerings in mid-2005. Its primary revenue is generated through subscription fees for its Internet access services as well as fees for equipment leasing. At December 31, 2008, WildBlue had approximately 370,000 subscribers. WildBlue also has exclusive wholesale broadband distribution relationships with DIRECTV, Dish Network and the National Rural Telephone Cooperative and has marketing relationships with Qwest Communications and AT&T. WildBlue also sells its products and services through retail channels consisting of web-based, direct mail, inbound telesales and a national dealer network.

We own an approximate 37% equity interest in WildBlue and have made loans to WildBlue aggregating $223 million, including accrued interest.

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 and other multichannel video programming distributors ("MVPDs") that distribute 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, except where subject to effective competition under FCC rules, 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 MVPDs (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 that 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 MVPDs. Further, the 1992 Cable Act requires that such affiliated programmers make their programming services available to cable operators and competing MVPDs such as multi-channel multi-point distribution systems, which we refer to as MMDS, and direct broadcast satellite ("DBS") distributors on terms and conditions that do not unfairly discriminate among distributors. The Telecommunications Act of 1996 extended these rules to programming services

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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. As explained below in "DBS Regulation," we are also subject to the program access rules as a condition of FCC approval of our transaction with News Corporation in 2008. In 2007, the FCC extended the prohibition on exclusive programming contracts until 2012 and amended the program access complaint rules. The FCC also has initiated a rulemaking proceeding to consider additional revisions to its program access rules, including, among others, changes in the complaint procedures, restrictions on the bundling of programming services to distributors and the extension of the rules to terrestrially-delivered programming.

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 MVPDs (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. 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 in 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. After conducting a further rulemaking regarding this ownership limitation, in 2007, the FCC again adopted a thirty percent limit on the number of subscribers served by a cable operator nationwide.

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 services in which we have interests by limiting the carriage of such services in cable systems with limited channel capacity. In 2001, the FCC adopted rules relating to the cable carriage of digital television signals, including rules clarifying that a digital-only television station can assert a right to analog or digital carriage on a cable system. In

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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 continue to seek reconsideration of the FCC's decision and may seek judicial review or legislative change of the FCC's decision. In 2007, the FCC adopted an order addressing cable operators' obligations to ensure that local broadcasters' primary video and program-related material are viewable by all subscribers following completion of the digital transition. The FCC's order allows cable operators to comply with the viewability requirements by carrying a broadcaster's digital signal in either analog format or digital format, provided that all subscribers have the necessary equipment to view the broadcast content. The viewability requirements extend to February 2012, and during 2011, the FCC will review the requirements based upon the state of technology and the marketplace.

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 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 may incur 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 "à-la-carte," i.e. on an individual or small tier basis. The Media Bureau released a report in 2004, which concluded that à-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. In 2006, the Media Bureau released a new report which stated that the 2004 report was flawed and which concluded that à-la-carte sales could be in the best interests of consumers. Although the FCC's authority to mandate à-la-carte sales has been questioned, its endorsement of the concept could encourage Congress to consider proposals to mandate à-la-carte sales or otherwise seek to impose greater regulatory controls on how programming is sold by MVPDs. The programming companies whose services are distributed in tiers or packages of programming services would experience decreased distribution if à-la-carte carriage were mandated.

Broadcast Regulation. The Communications Act permits the operation of television broadcast stations pursuant to a license issued by the FCC upon a finding that the grant of the license would serve the public interest, convenience and necessity. The FCC grants television broadcast station licenses for a maximum permitted term of eight years and, upon application, may renew the license for additional terms. Generally, the FCC renews broadcast licenses upon finding that: (1) the television station has served the public interest, convenience and necessity; (2) there have been no serious violations by the licensee of the Communications Act or FCC rules; and (3) there have been no other violations by the licensee of the Communications Act or FCC rules which, taken together, indicate a pattern of abuse. After considering these factors, the FCC may grant the license renewal application with or without conditions, including renewal for a lesser term than the maximum otherwise permitted, or hold an evidentiary hearing.

In 2007, the FCC released a new table of allotments which provides television stations in the United States with final digital television ("DTV") channel assignments following completion of the DTV transition on June 12, 2009. All full power television stations must cease transmission of analog signals by such date. On December 31, 2007, the FCC released a report and order adopting final rules governing the DTV transition.

The FCC regulates many aspects of broadcast station operations. For example, legislation enacted in 1990 limits the amount of commercial matter that may be broadcast during programming designed for children age 12 and younger. In addition, under FCC license renewal processing guidelines,

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television stations are generally required, among other things, to broadcast a minimum of three hours per week of programming, which must serve, as a "significant purpose," the educational and informational needs of children age 16 and younger. The FCC continues to enforce its regulations regarding political advertising, environmental matters, equal employment opportunity, indecency, technical operating matters and antenna tower maintenance. FCC rules require the closed captioning of almost all broadcast programming. FCC regulations also govern network affiliation agreements. Violation of FCC regulations can result in substantial monetary forfeitures, periodic reporting conditions, short-term license renewals and, in egregious cases, denial of license renewal or license revocation.

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.

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 MVPDs. 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. In 2007, Congress enacted legislation extending the moratorium on state and local taxes on Internet access and commerce until 2014.

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.

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DBS Regulation

On February 26, 2008, the FCC released its Memorandum Opinion and Order ("FCC Order") approving the Consolidated Application for Authority to Transfer Control of The DIRECTV Group, Inc. from News Corporation to our company. FCC approval was required to conclude the exchange transaction with News Corporation discussed above. The FCC determined that we acquired, under applicable FCC regulations, a de facto controlling interest in DIRECTV, the parent company of DIRECTV Holdings LLC ("DIRECTV U.S."). The FCC Order made its approval subject to certain conditions modeled on similar conditions imposed in 2003 when the FCC approved the transfer of control of DIRECTV to News Corporation, including program access and non-discrimination, program carriage, RSN arbitration and retransmission consent arbitration conditions. In addition, the FCC required that, within one year of the date of adoption of the FCC Order, all of the attributable interests connecting the separate operations in Puerto Rico of DIRECTV and of a subsidiary of Liberty Global, Inc., an independent publicly traded company, must be severed through divestiture or by otherwise making the interests non-attributable, in accordance with applicable FCC regulations, at which point the companies must certify that they have complied with this condition or filed applications necessary to achieve compliance. In order to comply with the FCC Order, effective February 25, 2009, DIRECTV placed shares of DIRECTV Puerto Rico into a Trust and appointed a Trustee who is required to oversee the management and operation of DIRECTV Puerto Rico.

DIRECTV U.S. is the largest provider of DBS service in the United States. DBS operators are subject to extensive FCC regulation, including: (1) licensing of DBS satellites, earth stations and ancillary communications authorizations; (2) assignment of frequencies and orbital slots, relocation of satellites to different orbital locations or the replacement of an existing satellite with a new satellite; (3) compliance with the terms and conditions of assignments and authorizations, including required timetables for construction and operation of satellites; and (4) avoidance of interference with the operations of other entities that use the radio spectrum.

DBS operators also must comply with Communications Act requirements, such as: (1) certain carriage requirements for local broadcast stations; (2) limitations on the retransmission of distant television signals; (3) set-aside of certain channel capacity for noncommercial programming of an educational or informational nature; and (4) participation in the national emergency alert system.

Other Regulation

We also have significant ownership interests on a cost basis in other entities, such as Sprint Nextel Corporation, which are extensively regulated. For example, 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, DBS providers, broadcast television licensees and Internet services 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.

Competition

Our businesses that engage in video and on-line commerce 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. In addition, QVC and HSN 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 and floral wire services such as FTD and Teleflora. 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, value, 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, Starz Entertainment relies on third parties for substantially all of its programming content whereas Starz Entertainment'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, exclusivity 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 hoteliers and airlines as well as travel planning service providers, including aggregator sites that offer inventory from multiple suppliers, such as airline sites, Orbitz, Travelocity and Priceline, and 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.

Starz Media faces competition from companies within the entertainment business and from alternative forms of leisure entertainment. Because of the importance of the domestic theatrical market in determining revenue from other sources, the primary competition for Starz Media's theatrical films and its other filmed products comes from both animated and live-action films that are targeted at similar audiences and released into the domestic theatrical market at approximately the same time as Starz Media's films. In addition to competing for box office receipts, Starz Media competes with other film studios over optimal release dates and the number of motion picture screens on which movies are exhibited. Anchor Bay competes with the home video/DVD distribution divisions of major theatrical production studios, as well as with several other independent home video/DVD distribution companies.

Employees

As of December 31, 2008, we had 75 corporate employees, and our consolidated subsidiaries had an aggregate of approximately 22,000 full and part-time employees. We believe that our employee relations are good.

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(d) *Financial Information About Geographic Areas*

For financial information related to the geographic areas in which we do business, see note 20 to our consolidated financial statements found in Part II of this report.

(e) *Available Information*

All of our filings with the Securities and Exchange Commission (the "SEC"), including our Form 10-Ks, Form 10-Qs and Form 8-Ks, as well as amendments to such filings are available on LMC's Internet website free of charge generally within 24 hours after we file such material with the SEC. LMC's website address is *www.libertymedia.com*.

The information contained on LMC's website is not incorporated by reference herein.

Item 1A. Risk Factors

The risks described below and elsewhere in this annual report are not the only ones that relate to our businesses. 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 businesses. 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, our businesses, prospects, financial condition, results of operations and/or cash flows could be materially adversely affected.

Factors Relating to our Company

The risks described below apply to our company.

We do not have the right to manage our business affiliates, which means we are not able to cause those affiliates to operate in a manner that is favorable to us. We do not have the right to manage the businesses or affairs of any of our business affiliates (generally those companies in which we have less than a majority voting stake). Rather, our 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 our veto rights vary from agreement to agreement. Although our board representation and veto rights may enable us to exercise influence over the management or policies of a business affiliate, enable us to prevent the sale of material assets by a business affiliate in which we own less than a majority voting interest or prevent us from paying dividends or making distributions to our stockholders or partners, they will not enable us to cause these actions to be taken.

The liquidity and value of our interests in our business affiliates may be affected by market conditions beyond our control that could cause us to record losses for declines in the market value of our available for sale securities. Included among our assets are equity interests in one or more publicly-traded companies which are accounted for as available for sale securities. The value of these interests may be affected by economic and market conditions that are beyond our control. We record the majority of our available for sale securities at fair value and any changes in fair value are reflected in our consolidated financial statements as realized gains or losses. In addition, our ability to liquidate these interests without adversely affecting their value may be limited.

A substantial portion of our consolidated debt is held above the operating subsidiary level, and we could be unable in the future to obtain cash in amounts sufficient to service that debt and our other financial obligations. As of December 31, 2008, we had $5.7 billion principal amount of publicly-traded debt outstanding. In addition, we have $1,375 million of bank debt that is held above the operating subsidiary level. Our ability to meet our financial obligations will depend on our ability to access cash. Our sources of cash include our available cash balances, net cash from operating activities, dividends and interest from our investments, availability under credit facilities at the operating subsidiary level, monetization of our public investment portfolio and proceeds from asset sales. There are no assurances that we will maintain the amounts of cash, cash equivalents or marketable securities that we maintained over the past few years. The ability of our operating subsidiaries to pay dividends or to make other payments or advances to us depends on their individual operating results and any statutory, regulatory or contractual restrictions to which they may be or may become subject. Some of our 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. We do not generally receive cash, in the form of dividends, loans, advances or otherwise, from our business affiliates. In this regard, we will not have sufficient voting control over most of our business affiliates to cause those companies to pay dividends or make other payments or advances to their partners or stockholders, including our company.

Certain of our subsidiaries and business affiliates depend on a limited number of potential customers for carriage of their programming. The cable television industry has been undergoing a period of consolidation, and there are only a limited number of direct-to-home satellite distribution companies. As a result, the number of potential buyers of the programming services offered by our subsidiaries and business affiliates is limited and possibly decreasing. In this more concentrated market, there can be no assurance that our owned and affiliated program suppliers 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 our subsidiaries and business affiliates obsolete or non-competitive. Our subsidiaries and business affiliates 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 our company.

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 our results of operations. 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 our results of operations.

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

Our subsidiaries and business affiliates are subject to risks of adverse government regulation. Programming services, cable television systems, the Internet, telephony services, direct-to-home satellite 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 regulators. 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 our 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 our businesses and assets will not be adversely affected by future legislation, new regulation or deregulation.

The success of certain of our 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 our subsidiaries and business affiliates 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.

The success of certain of our subsidiaries and business affiliates depends on 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 direct-to-home (DTH) satellite providers negotiate affiliation agreements and, in the case of ad-supported programming, when advertising rates are negotiated. Consequently, low public acceptance of cable programs and premium subscription television program services offered by our subsidiaries and business affiliates will have an adverse effect on our results of operations.

Increased programming and content costs may adversely affect profits. Our subsidiaries and business affiliates 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.

Weakening economic conditions may reduce consumer demand for our products and services. The current economic downturn in the United States and in other regions of the world in which our subsidiaries and affiliates operate could adversely affect demand for our products and services. A substantial portion of our revenue is derived from discretionary spending by individuals, which typically falls during times of economic instability. A reduction in discretionary spending could adversely affect our revenue including lagging retail sales and potential downgrades or disconnects by satellite subscribers. Accordingly, our ability to increase or maintain revenue and earnings could be adversely affected to the extent that relevant economic environments remain weak or decline further. We currently are unable to predict the extent of any of these potential adverse effects.

Disruptions in the worldwide credit and equity markets have increased the risk of default by the counterparties to our financial instruments and cash investments. Disruptions in the credit and equity markets have impacted the creditworthiness of certain financial institutions. Although we seek to manage the credit risks associated with our financial instruments and cash investments, we are exposed to an increased risk that our counterparties may default on their obligations to us. At December 31, 2008, our total assets included derivatives with a fair value of $2,485 million and short-term marketable securities of $104 million. Were one or more of our counterparties to fail or otherwise be unable to meet its obligations to us, our financial condition could be adversely affected.

Factors Relating to QVC

The risks described below are unique to QVC.

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 depends on the cable and satellite distributors that carry its network, and no assurance can be given that QVC will be able to renew its affiliation agreements on favorable terms or at all. QVC currently distributes its programming through affiliation agreements with many local and national cable and satellite providers, including Comcast, Time Warner, DIRECTV and DISH Network. Affiliation agreements expire from time to time and, in some cases, renewals are not agreed upon prior to the expiration of a given agreement while the television network continues to be carried by the relevant distributor without an effective agreement in place. Renewal and negotiation processes with distributors are typically lengthy, and QVC is currently seeking to negotiate a renewal with a large distributor regarding an agreement that is scheduled to expire in June 2009. QVC may be unable to obtain this renewal or renewals or new affiliation agreements with this or any other distributor to carry the QVC television network on acceptable terms, if at all.

Consumer retail spending can decline significantly during periods of general economic uncertainty or during recessionary periods when disposable incomes decline. The substantial downturn in the U.S. and global economies has caused a severe fall-off in retail sales. Retailers such as QVC are experiencing not only reduced sales, but also an increase in returned merchandise, which is materially adversely affecting their earnings. QVC began experiencing the effects of this downturn in 2008. No assurance can be given as to how much more retail sales will fall or how much longer this downturn will last.

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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. We can not assure you that if QVC experiences turnover of its key employees, it will be able to recruit and retain acceptable replacements because the market for such employees is very competitive and limited.

QVC has operations outside of the United States that are subject to numerous operational and financial risks. QVC has 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.

Factors Relating to DIRECTV

The risk factors described below relate to: the risks involved in our ownership of an interest in DIRECTV; and operational risks relating to DIRECTV. The operational risk factors have been reproduced from DIRECTV's Annual Report on Form 10-K for the year ended December 31, 2008.

DIRECTV's business, financial condition or results of operations could be materially and adversely affected by the following:

***DIRECTV* competes with other MVPDs, some of whom have greater resources than *DIRECTV* does and levels of competition are increasing.** DIRECTV competes in the MVPD industry against cable television, telephone communications and wireless companies and other land-based and satellite-based system operators with service offerings including video, audio and interactive programming, data and other entertainment services and telephony service. Some of these competitors have greater financial, marketing and other resources than DIRECTV does.

Some cable television operators have large, established customer bases and many cable operators have significant investments in, and access to, programming. According to the National Cable & Telecommunications Association's 2008 Industry Overview, 96% of the 128.6 million U.S. housing units are passed by cable. Of the 128.6 million U.S. housing units, approximately 97.6 million subscribe to a MVPD service and approximately 66% of MVPD subscribers receive their programming from a cable operator. Cable television operators have advantages relative to DIRECTV, including or as a result of:

- being the incumbent MVPD operator with an established subscriber base in the territories in which DIRECTV competes;

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- bundling their analog video service with expanded digital video services delivered terrestrially or via satellite, or with efficient two-way high-speed Internet access or telephone service on upgraded cable systems;

- having the ability to provide certain local and other programming, including HD programming, in geographic areas where DIRECTV does not currently provide local or local HD programming; and

- having legacy arrangements for exclusivity in certain multiple dwelling units and planned communities.

In addition, cable television operators have grown their subscriber bases through mergers and acquisitions. Moreover, mergers, joint ventures and alliances among franchise, wireless or private cable television operators, telcos, broadband service providers and others may result in providers capable of offering bundled television, data and telecommunications services in competition with DIRECTV's services.

DIRECTV does not currently offer local channel coverage to markets covering approximately five percent of U.S. television households, which places DIRECTV at a competitive disadvantage in those markets. DIRECTV also has been unable to secure certain international programming, due to exclusive arrangements of programming providers with certain competitors, which has constrained its ability to compete for subscribers who wish to obtain such programming.

In the United States, various telcos and broadband service providers have deployed fiber optic lines directly to customers' homes or neighborhoods to deliver video services, which compete with the DIRECTV service. It is uncertain whether DIRECTV will be able to increase its satellite capacity, offer a significant level of new services in existing markets in which it competes or expand to additional markets as may be necessary to compete effectively. Some of these various telcos and broadband service providers also sell the DIRECTV service as part of a bundle with their voice and data services. A new broadly-deployed network with the capability of providing video, voice and data services could present a significant competitive challenge and, in the case of the telcos currently selling the DIRECTV service, could result in such companies focusing less effort and resources selling the DIRECTV service or declining to sell it at all. DIRECTV may be unable to develop other distribution methods to make up for lost sales through the telcos.

As a result of these and other factors, DIRECTV may not be able to continue to expand its subscriber base or compete effectively against cable television or other MVPD operators in the future.

Emerging digital media competition could materially adversely affect DIRECTV. DIRECTV's business is focused on television, and it faces emerging competition from other providers of digital media, some of which have greater financial, marketing and other resources than DIRECTV does. Significant changes in consumer behavior with regard to the means by which they obtain video entertainment and information in response to this emerging digital media competition could materially adversely affect DIRECTV's revenue and earnings or otherwise disrupt its business. For example, Netflix, Inc. recently reported rapid subscriber growth in its core DVD offering and internet streaming through Microsoft's Xbox 360. If services such as these continue to grow rapidly and broadband is readily available, DIRECTV's customers could be less likely to buy pay per view movies and premium packages. If pay per view purchases decrease and DIRECTV's customers do not purchase as many premium packages, its revenue could become compressed which would have a material adverse effect on its earnings and financial performance.

DIRECTV depends on others to produce programming and programming costs are increasing. DIRECTV depends on third parties to provide it with programming services, including third parties who are DIRECTV's affiliates and third parties controlled by competitors. DIRECTV's ability to compete successfully will depend on its ability to continue to obtain desirable programming and deliver

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it to its subscribers at competitive prices. DIRECTV's programming agreements generally have remaining terms ranging from less than one to up to ten years and contain various renewal and cancellation provisions. DIRECTV may not be able to renew these agreements on favorable terms, or at all, or these agreements may be cancelled prior to expiration of their original terms. If DIRECTV is unable to renew any of these agreements or the other parties cancel the agreements, DIRECTV may not be able to obtain substitute programming, or if it is able to obtain such substitute programming, it may not be comparable in quality or cost to DIRECTV's existing programming.

In addition, many of DIRECTV's programming agreements are long term agreements and contain fixed annual price increases. When offering new programming, or upon expiration of existing contracts, programming suppliers have historically increased the rates they charge DIRECTV for programming, increasing its costs. DIRECTV expects this practice to continue. Increases in programming costs could cause DIRECTV to increase the rates that it charges its subscribers, which could in turn, especially in a difficult economic environment, cause subscribers to terminate their subscriptions or potential new subscribers to refrain from subscribing to DIRECTV's service. Furthermore, due to the economy and other factors, DIRECTV may be unable to pass programming cost increases on to its subscribers, which could have a material adverse effect on its earnings or cash flow.

The FCC has adopted rules requiring DIRECTV to negotiate in good faith with broadcast stations seeking carriage outside of the mandatory carriage regime described elsewhere. The rules for "retransmission consent" negotiations, which are similar to those that have applied to broadcast stations for years, require DIRECTV to comply with certain indicia of good faith negotiation, as well as to demonstrate good faith under a "totality of the circumstances" test. Failure to comply with these rules could subject DIRECTV to administrative sanctions and other penalties.

DIRECTV's subscriber acquisition costs could materially increase. DIRECTV incurs costs relating to subscribers acquired by DIRECTV and subscribers acquired through third parties. These costs are known as subscriber acquisition costs. For instance, DIRECTV provides installation incentives to its retailers to enable them to offer standard professional installation as part of the subscriber's purchase or lease of a DIRECTV System. In addition, DIRECTV pays commissions to retailers for their efforts in offering a DIRECTV System at a lower cost to consumers. DIRECTV's subscriber acquisition costs may materially increase to the extent DIRECTV continues or expands current sales promotion activities or introduce other more aggressive promotions, or due to increased competition. Any material increase in subscriber acquisition costs from current levels would negatively impact DIRECTV's earnings and could materially adversely affect its financial performance.

Increased subscriber churn or subscriber upgrade and retention costs could materially adversely affect DIRECTV's financial performance. Turnover of subscribers in the form of subscriber service cancellations, or churn, has a significant financial impact on the results of operations of any subscription television provider, including DIRECTV, as does the cost of upgrading and retaining subscribers. Any increase in DIRECTV's upgrade and retention costs for its existing subscribers may adversely affect its financial performance or cause DIRECTV to increase its subscription rates, which could increase churn. Churn may also increase due to factors beyond DIRECTV's control, including churn by subscribers who are unable to pay their monthly subscription fees, a slowing economy, significant signal theft, consumer fraud, a maturing subscriber base and competitive offers. Any of the risks described in this Annual Report that could potentially have a material adverse impact on DIRECTV's cost or service quality or that could result in higher prices for its subscribers could also, in turn, cause an increase in churn and consequently have a material adverse effect on DIRECTV's earnings and financial performance.

Results are impacted by the effect of, and changes in, United States and Latin America economic conditions and weakening economic conditions may reduce subscriber spending and DIRECTV's rate of growth of subscriber additions and may increase subscriber churn. DIRECTV's business may be affected by factors in the United States and other countries in which it operates that are beyond its control, such as downturns in economic activity in a specific country or region, or in the MVPD industry. Factors such as interest rates and the health of the housing market may impact DIRECTV's business. A substantial portion of DIRECTV's revenue comes from residential customers whose spending patterns may be affected by prevailing economic conditions. DIRECTV's market share in multiple dwelling units such as apartment buildings is lower than that of many of its competitors. If unemployment and foreclosures of single family residences increase, DIRECTV's earnings and financial performance will be negatively affected more than those of its competitors. In addition, if DIRECTV's customers seek alternative means to obtain video entertainment, they may choose to purchase fewer services from DIRECTV. Due to the economic and competitive environment, DIRECTV may need to spend more to acquire and retain customers who in turn spend less on its services. If DIRECTV's average revenue per unit, or ARPU, decreases, DIRECTV's margins could become compressed as the long term value of a customer decreases. The weak economy may affect DIRECTV's net subscriber additions and reduce subscriber spending and, if these economic conditions continue or deteriorate further, DIRECTV's subscriber growth could decline and its churn rate could increase which would have a material adverse effect on its earnings and financial performance.

DTVLA is subject to various additional risks associated with doing business internationally, which include political instability, economic instability, and foreign currency exchange rate volatility. All of DTVLA's operating companies are located outside the continental United States. DTVLA operates and has subscribers located throughout Latin America and the Caribbean Basin, which makes it vulnerable to risks of conducting business in foreign markets, including:

- difficulties and costs associated with complying with a wide variety of complex laws, treaties and regulations;
- unexpected changes in regulatory environments;
- longer payment cycles;
- earnings and cash flows that may be subject to tax withholding requirements or the imposition of tariffs, exchange controls or other restrictions;
- political and economic instability;
- import and export restrictions and other trade barriers;
- difficulties in maintaining overseas subsidiaries and international operations; and
- difficulties in obtaining approval for significant transactions.

In the past, the countries that constitute some of DTVLA's largest markets, including Brazil, Argentina, Colombia and Venezuela have experienced economic crises, caused by external and internal factors, and characterized by exchange rate instability, high inflation, high domestic interest rates, economic contraction, a reduction or cessation of international capital flows, a reduction of liquidity in the banking sector and high unemployment. These economic conditions have often been related to political instability, including political violence. If these economic conditions recur, they could substantially reduce the purchasing power of the population in DIRECTV's markets and materially adversely affect its business.

Because DTVLA offers premium pay television programming, its business is particularly vulnerable to economic downturns. DTVLA has experienced, and may in the future experience, decreases or instability in consumer demand for its programming, as well as subscriber credit problems. DTVLA's inability to adjust its business and operations to adequately address these issues could materially adversely affect its revenues and ability to sustain profitable operations.

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DIRECTV's ability to keep pace with technological developments is uncertain. In the MVPD industry, changes occur rapidly as new technologies are developed, which could cause DIRECTV's services and products that deliver its services to become obsolete. DIRECTV may not be able to keep pace with technological developments. If the new technologies on which DIRECTV intends to focus its investments fail to achieve acceptance in the marketplace or its technology does not work and requires significant cost to replace or fix, DIRECTV could suffer a material adverse effect on its future competitive position, which could cause a reduction in its revenue and earnings. For example, DIRECTV's competitors could be the first to obtain proprietary technologies that are perceived by the market as being superior. Further, after incurring substantial costs, one or more of the technologies under development by DIRECTV or any of its strategic partners could become obsolete prior to its introduction.

In addition, technological innovation depends, to a significant extent, on the work of technically skilled employees. Competition for the services of these employees is vigorous. We cannot assure you that DIRECTV will be able to continue to attract and retain these employees.

To access technologies and provide products that are necessary for DIRECTV to remain competitive, particularly in the area of broadband services, DIRECTV may make future acquisitions and investments and may enter into strategic partnerships with other companies. Such investments may require a commitment of significant capital and human and other resources. The value of such acquisitions, investments and partnerships and the technology accessed may be highly speculative. Arrangements with third parties can lead to contractual and other disputes and dependence on the development and delivery of necessary technology on third parties that DIRECTV may not be able to control or influence. These relationships may commit DIRECTV to technologies that are rendered obsolete by other developments or preclude the pursuit of other technologies which may prove to be superior.

New technologies could also create new competitors for DIRECTV. Entities such as telcos are implementing and supporting digital video delivery over existing telephone lines and building out fiber optic lines to enhance their capabilities to deliver programming services. Satellite operators such as SES have begun offering turn-key packages of digital programming on a wholesale basis for distribution by rural telcos. While these entities are not currently providing MVPD services on a significant basis, many have the capabilities for such services and are growing their businesses. DIRECTV may not be able to compete successfully with new entrants in the market for video services.

DIRECTV's business relies on intellectual property, some of which is owned by third parties, and DIRECTV may inadvertently infringe patents and proprietary rights of others. Many entities, including some of DIRECTV's competitors, have or may in the future obtain patents and other intellectual property rights that cover or affect products or services related to those that DIRECTV currently offers or may offer in the future. In general, if a court determines that one or more of DIRECTV's services or the products used to transmit or receive its services infringes on intellectual property owned by others, DIRECTV and the applicable manufacturers or vendors may be required to cease developing or marketing those services and products, to obtain licenses from the owners of the intellectual property or to redesign those services and products in such a way as to avoid infringing the intellectual property rights. If a third party holds intellectual property rights, it may not allow DIRECTV or the applicable manufacturers to use its intellectual property at any price, which could materially adversely affect DIRECTV's competitive position.

DIRECTV may not be aware of all intellectual property rights that its services or the products used to transmit or receive its services may potentially infringe. In addition, patent applications in the United States are confidential until the Patent and Trademark Office issues a patent. Therefore, DIRECTV cannot evaluate the extent to which its services or the products used to transmit or receive its services may infringe claims contained in pending patent applications. Further, without lengthy litigation, it is often not possible to determine definitively whether a claim of infringement is valid.

DIRECTV cannot estimate the extent to which it may be required in the future to obtain intellectual property licenses or the availability and cost of any such licenses. Those costs, and their impact on DIRECTV's earnings, could be material. Damages in patent infringement cases may also include treble damages in certain circumstances. To the extent that DIRECTV is required to pay royalties to third parties to whom it is not currently making payments, these increased costs of doing business could materially adversely affect DIRECTV's operating results. DIRECTV is currently being sued in patent infringement actions related to use of technologies in its DTH business. There can be no assurance that the courts will conclude that DIRECTV's services or the products used to transmit or receive its services do not infringe on the rights of third parties, that DIRECTV or the manufacturers would be able to obtain licenses from these persons on commercially reasonable terms or, if DIRECTV were unable to obtain such licenses, that it or the manufacturers would be able to redesign DIRECTV's services or the products used to transmit or receive its services to avoid infringement. The final disposition of these claims is not expected to have a material adverse effect on DIRECTV's consolidated financial position, but could possibly be material to its consolidated results of operations for any one period. Further, no assurance can be given that any adverse outcome would not be material to DIRECTV's consolidated financial position.

DIRECTV relies on key personnel. DIRECTV believes that its future success will depend to a significant extent upon the performance of certain of its key executives. The loss of certain of DIRECTV's key executives could have a material adverse effect on its business, financial condition and results of operations.

Construction or launch delays on satellites could materially adversely affect DIRECTV's revenue and earnings. A key component of DIRECTV's business strategy is its ability to expand its offering of new programming and services, including increased local and HD programming. In order to accomplish this goal, DIRECTV needs to construct and launch new satellites. The construction and launch of satellites are often subject to delays, including satellite and launch vehicle construction delays, periodic unavailability of reliable launch opportunities due to competition for launch slots, weather and also due to general delays that result when a launch provider experiences a launch failure, and delays in obtaining regulatory approvals. A significant delay in the future delivery of any satellite would materially adversely affect the use of the satellite and thus could materially adversely affect DIRECTV's anticipated revenue and earnings. If satellite construction schedules are not met, there can be no assurance that a launch opportunity will be available at the time a satellite is ready to be launched. Certain delays in satellite construction could also jeopardize a satellite authorization that is conditioned on timely construction and launch of the satellite.

DIRECTV's satellites are subject to significant launch and operational risks. Satellites are subject to significant operational risks relating to launch and while in orbit. Launch and operational risks include launch failure, incorrect orbital placement or improper commercial operation. Launch failures result in significant delays in the deployment of satellites because of the need both to construct replacement satellites, which can take up to 36 months, and obtain other launch opportunities. DIRECTV estimates the overall historical loss rate for all launches of commercial satellites in the last five years to be approximately 5%, but it may be higher. Any significant delays or failures in successfully launching and deploying DIRECTV's satellites could materially adversely affect its ability to generate revenue. While DIRECTV has traditionally purchased insurance covering the launch and, in limited cases, operation of its satellites, such policies typically cover the loss of the satellite itself or a portion thereof, and not the business interruption or other associated direct and indirect costs. For its DIRECTV 12 satellite, scheduled for launch in the second half of 2009, DIRECTV expects to purchase launch insurance covering a portion of the satellite and launch vehicle costs in the event of a total loss of the satellite prior to separation from the launch vehicle. DIRECTV does not currently expect to purchase in-orbit insurance for the DIRECTV 12 satellite.

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In-orbit risks include malfunctions, commonly referred to as anomalies, and collisions with meteoroids, other spacecraft or other space debris. Anomalies occur as a result of various factors, such as satellite manufacturing errors, problems with the power systems or control systems of the satellites and general failures resulting from operating satellites in the harsh space environment. DIRECTV works closely with its satellite manufacturers to determine and eliminate the potential causes of anomalies in new satellites and provide for redundancies of critical components in the satellites as well as having backup satellite capacity. However, no assurance can be made that DIRECTV will not experience anomalies in the future, nor can any assurance be made that its backup satellite capacity will be sufficient for its business purposes. Any single anomaly or series of anomalies could materially adversely affect DIRECTV's operations and revenue and its relationships with its subscribers, as well as its ability to attract new subscribers for its services. Anomalies may also reduce the expected useful life of a satellite, thereby creating additional expenses due to the need to provide replacement or backup satellites and potentially reducing revenue if service is interrupted. Finally, the occurrence of anomalies may materially adversely affect DIRECTV's ability to insure its satellites at commercially reasonable premiums, if at all. While some anomalies are currently covered by existing insurance policies, others are not now covered or may not be covered in the future.

DIRECTV's ability to earn revenue also depends on the usefulness of its satellites. Each satellite has a limited useful life. A number of factors affect the useful life of a satellite, including, among other things:

- the design;
- the quality of its construction;
- the durability of its component parts;
- the launch vehicle's insertion of the satellite into orbit;
- any required movement, temporary or permanent, of the satellite;
- the ability to continue to maintain proper orbit and control over the satellite's functions; and
- the remaining on-board fuel following orbit insertion.

Generally, the minimum design life of the satellites in DIRECTV's fleet is between 12 and 16 years. The actual useful lives of the satellites may be shorter or longer, in some cases significantly. DIRECTV's operating results could be adversely affected if the useful life of any of its satellites were significantly shorter than 12 years from the date of launch.

In the event of a failure or loss of any of its satellites, DIRECTV may relocate another satellite and use it as a replacement for the failed or lost satellite. In the event of a complete satellite failure, DIRECTV's services provided via that satellite could be unavailable for several days or longer while backup in-orbit satellites are repositioned and services are moved. DIRECTV is not insured for any resultant lost revenue. The use of backup satellite capacity for its programming may require DIRECTV to discontinue some programming services due to potentially reduced capacity on the backup satellite. Any relocation of DIRECTV's satellites would require prior FCC approval and, among other things, a demonstration to the FCC that the replacement satellite would not cause additional interference compared to the failed or lost satellite. Such FCC approval may not be obtained. DIRECTV believes it has or will have in 2009, in-orbit satellite capacity to expeditiously recover transmission of most DIRECTV U.S. programming in the event one of its in-orbit satellites fails. However, programming continuity cannot be assured in the event of multiple satellite losses. DTVLA leases its satellites and may not have a readily available replacement in the event of a failure or loss of any of its satellites. Because DIRECTV currently has no back-up capacity in place for DTVLA, programming continuity in the countries in which DTVLA operates cannot be assured in the event of a single satellite loss.

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The cost of commercial insurance coverage on its satellites or the loss of a satellite that is not insured could materially adversely affect DIRECTV's earnings. DIRECTV uses in-orbit and launch insurance to mitigate the potential financial impact of satellite fleet in-orbit and launch failures unless the premium costs are considered uneconomic relative to the risk of satellite failure. When insurance is obtained, it generally covers all or a portion of the unamortized book value of covered satellites. Although the insurance does not compensate for business interruption or loss of future revenues or subscribers, DIRECTV relies on in-orbit spare satellites and excess transponder capacity at key orbital slots to mitigate the impact that a satellite failure may have on its ability to provide service.

The price, terms and availability of insurance fluctuate significantly. Launch and in-orbit policies on satellites may not continue to be available on commercially reasonable terms or at all. In addition to higher premiums, insurance policies may provide for higher deductibles, shorter coverage periods and satellite health-related policy exclusions.

Any launch vehicle failure, or loss or destruction of any of DIRECTV's satellites, even if insured, could have a material adverse effect on its financial condition and results of operations, its ability to comply with FCC regulatory obligations and its ability to fund the construction or acquisition of replacement satellites in a timely fashion, or at all.

DIRECTV depends on the Communications Act for access to cable-affiliated programming and changes impacting that access could materially adversely affect DIRECTV. DIRECTV purchases a substantial percentage of its programming from programmers that are affiliated with cable system operators. Currently, under certain provisions of the Communications Act governing access to programming, cable-affiliated programmers generally must sell and deliver their programming services to all MVPDs on non-discriminatory terms and conditions. The Communications Act and the FCC rules also prohibit certain types of exclusive programming contracts involving programming from cable-affiliated programmers.

Any change in the Communications Act or the FCC's rules that would permit programmers that are affiliated with cable system operators to refuse to provide such programming or to impose discriminatory terms or conditions could materially adversely affect DIRECTV's ability to acquire programming on a cost-effective basis, or at all. The Communications Act prohibitions on certain cable industry exclusive contracting practices with cable-affiliated programmers were recently extended for another five years, through October 2012, though it is currently considering proposals that could shorten the term of this extension to two years if a cable operator could show that competition from new entrant MVPDs at that time had reached a sufficient penetration level in the relevant marketing area.

In addition, certain cable providers have denied DIRECTV and other MVPDs access to a limited number of channels created by programmers with which the cable providers are affiliated. The cable providers have asserted that they are not required to provide such programming due to the manner in which that programming is distributed, which they argue is not covered by the program access provisions of the Communications Act. Challenges to this interpretation of the Communications Act have not been successful, and DIRECTV may continue to be precluded from obtaining such programming, which in turn could materially adversely affect its ability to compete in regions serviced by those cable providers. Although the FCC recently addressed some of these issues in a limited fashion by placing access conditions on certain regional sports networks affiliated with Time Warner Cable, Inc. and Comcast Corporation, it is not clear that such provisions will be sufficient to assure DIRECTV's continued access to this programming on fair and nondiscriminatory terms.

Carriage requirements may negatively affect DIRECTV's ability to deliver local broadcast stations, as well as other aspects of its business. The FCC's interpretation, implementation and enforcement of provisions of SHVIA and SHVERA, as well as judicial decisions interpreting and enforcing these laws, could hamper DIRECTV's ability to retransmit distant network and superstation signals, reduce the number of its existing or future subscribers that can qualify for receipt of these signals, impose costs on DIRECTV in connection with the process of complying with the rules, or subject DIRECTV to fines, monetary damages or injunctions. In implementing SHVIA, the FCC has required satellite carriers to delete certain programming, including sports programming, from the signals of certain distant stations. Compliance with those FCC requirements may require costly upgrades to DIRECTV's broadcast system. Further, a recent FCC order interpreting the requirement that satellite carriers retransmit local digital signals with "equivalent bandwidth" of significantly viewed digital signals may constrain DIRECTV's ability to deliver such significantly viewed digital signals.

DIRECTV has limited capacity, and the projected number of markets in which it can deliver local broadcast programming will continue to be constrained because of the must carry requirement and may be reduced depending on the FCC's interpretation of its rules in pending and future rulemaking and complaint proceedings, as well as judicial decisions interpreting must carry requirements. DIRECTV may not be able to comply with these must carry rules, or compliance may mean that it is not able to use capacity that could otherwise be used for new or additional local or national programming services. In addition, the FCC has begun to consider an obligation for carriage of local digital broadcast transmissions after the digital television transition currently scheduled for June 12, 2009. If the FCC were to require DIRECTV to carry all local signals in HD format wherever it carries any local signals in HD format as of that date, DIRECTV would be unable to comply in many markets where it currently carries such signals without ceasing HD local service entirely in some markets, and would be precluded from launching additional markets currently planned for later this year.

Satellite programming signals have been stolen and may be stolen in the future, which could result in lost revenue and would cause DIRECTV to incur incremental operating costs that do not result in subscriber acquisition. The delivery of subscription programming requires the use of conditional access technology to limit access to programming to only those who subscribe and are authorized to view it. The conditional access system uses, among other things, encryption technology to protect the transmitted signal from unauthorized access. It is illegal to create, sell or otherwise distribute software or devices to circumvent that conditional access technology. However, theft of cable and satellite programming has been widely reported, and the access cards used in DIRECTV's conditional access system have been compromised in the past and could be compromised in the future.

DIRECTV has undertaken various initiatives with respect to its conditional access system to further enhance the security of the DIRECTV signal. To help combat signal theft, DIRECTV provides its subscribers with more advanced access cards that DIRECTV believes significantly enhance the security of its signal. Currently, DIRECTV believes these access cards have not been compromised. However, DIRECTV cannot guarantee that new cards will prevent the theft of its satellite programming signals in the future. Furthermore, there can be no assurance that DIRECTV will succeed in developing the technology it needs to effectively restrict or eliminate signal theft. If DIRECTV's current access cards are compromised, its revenue and its ability to contract for video and audio services provided by programmers could be materially adversely affected. In addition, DIRECTV's operating costs could increase if it attempts to implement additional measures to combat signal theft.

The ability to maintain FCC licenses and other regulatory approvals is critical to DIRECTV's business. If DIRECTV does not obtain all requisite U.S. regulatory approvals for the construction, launch and operation of any of its existing or future satellites for the use of frequencies at the orbital locations planned for these satellites or for the provision of service, or the licenses obtained impose operational restrictions on it, DIRECTV's ability to generate revenue and profits could be materially adversely affected. In addition, under certain circumstances, existing licenses are subject to revocation or modification and upon expiration, renewal may not be granted. If existing licenses are not renewed, or are revoked or materially modified, DIRECTV's ability to generate revenue could be materially adversely affected.

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In certain cases, satellite system operators are obligated by governmental regulation and procedures of the ITU to coordinate the operation of their systems with other users of the radio spectrum in order to avoid causing interference to those other users. Coordination may require a satellite system operator to reduce power, avoid operating on certain frequencies, relocate its satellite to another orbital location and/or otherwise modify planned or existing operations. For example, the FCC has conditionally granted Spectrum Five authority to provide DBS service using frequencies assigned to it by the Government of the Netherlands from an orbital slot located halfway between slots at which DIRECTV currently operates. Other operators have filed similar requests. DIRECTV believes this closer proximity, if permitted, significantly increases the risk of interference which could adversely affect the quality of service provided to its subscribers. DIRECTV may not be able to successfully coordinate our satellites to the extent it is required to do so, and any modifications DIRECTV makes in the course of coordination, or any inability to successfully coordinate, may materially adversely affect its ability to generate revenue. In addition, the FCC is currently conducting a rulemaking proceeding to consider, among other things, the adoption of operating parameters under which such "tweener" systems would be automatically deemed coordinated.

Other regulatory risks include, among others:

- the relocation of satellites to different orbital locations if the FCC determines that relocation is in the public interest;

- the denial by the FCC of an application to replace an existing satellite with a new satellite or to operate a satellite beyond the term of its current authorization;

- the loss of authorizations to operate satellites on certain frequencies at certain locations if DIRECTV does not construct, launch and operate satellites into those locations by certain dates; and

- the authorization by the United States or foreign governments of the use of frequencies by third party satellite or terrestrial facilities that have the potential to interfere with communication to or from DIRECTV's satellites, which could interfere with DIRECTV's contractual obligations or services to subscribers or other business operations.

All of DIRECTV's FCC satellite authorizations are subject to conditions imposed by the FCC in addition to the FCC's general authority to modify, cancel or revoke those authorizations. Use of FCC licenses and conditional authorizations are often subject to conditions, including technical requirements and implementation deadlines. Failure to comply with such requirements, or comply in a timely manner, could lead to the loss of authorizations and could have a material adverse effect on DIRECTV's ability to generate revenue. For example, loss of an authorization could potentially reduce the amount of programming and other services available to DIRECTV's subscribers. The materiality of such a loss of authorization would vary based upon, among other things, the orbital location at which the frequencies may be used.

In addition, many of DIRECTV's authorizations and pending applications will be subject to petitions and oppositions filed by several companies, and there can be no assurance that its authorizations will not be cancelled, revoked or modified or that its applications will not be denied. Moreover, the FCC recently adopted new rules for licensing satellites that may limit DIRECTV's ability to file applications and secure licenses in the future.

Congress has continued to shape the scope of the FCC's regulatory authority and enact legislation that affects DIRECTV's business. In addition, FCC proceedings to implement legislation and enact additional regulations are ongoing. The outcomes of these legislative or regulatory proceedings or their effect on DIRECTV's business cannot be predicted.

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DIRECTV controls a substantial portion of interaction with its customers and it may not be as efficient or effective as its outsourced providers resulting in higher costs. DIRECTV has a number of insourced call centers and recently insourced a substantial portion of its installation service providers to handle customer service calls, installations and repairs. DIRECTV may not be as efficient or effective as its outsourced providers resulting in higher costs. Also, there is a risk that its customer satisfaction could be impacted, which may lead to higher subscriber churn and an inability to attract new subscribers. In addition, DIRECTV's outsourced providers could encounter financial difficulties, which may disrupt DIRECTV's ability to make installation service calls or to provide a level of customer service it expects, and which also may lead to higher subscriber churn and an inability to attract new subscribers.

DIRECTV may not be able to obtain or retain certain foreign regulatory approvals. There can be no assurance that any current regulatory approvals held by DIRECTV are, or will remain, sufficient in the view of foreign regulatory authorities, or that any additional necessary approvals will be granted on a timely basis or at all, in all jurisdictions in which DIRECTV operates, or that applicable restrictions in those jurisdictions will not be unduly burdensome. The failure to obtain the authorizations necessary to operate satellites or provide satellite service internationally could have a material adverse effect on DIRECTV's ability to generate revenue and its overall competitive position.

DIRECTV has significant debt. DIRECTV has significant amounts of debt. If it does not have sufficient income or other sources of cash, it could affect DIRECTV's ability to service debt and pay other obligations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties.

We own our corporate headquarters in Englewood, Colorado. All of our other real or personal property is owned or leased by our subsidiaries and business affiliates.

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, Bochum and Kassel, Germany, as well as a call center and warehouse in Knowsley, United Kingdom. QVC owns a distribution center in Hücklehoven, Germany and distribution centers in Lancaster, Pennsylvania, Suffolk, Virginia, Rocky Mount, North Carolina, Florence, South Carolina and Sakura-shi, Chiba, Japan. 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.

Starz Entertainment owns its corporate headquarters in Englewood, Colorado. In addition, Starz Entertainment leases office space for its business affairs and sales staff at four locations around the United States.

Starz Media leases space for its executive offices, distribution and sales operations, and production studio facilities in Burbank, California, Troy, Michigan, Beverly Hills, California and New York, New York. Starz Media also leases space for its international production and distribution operations in Toronto, Ontario, London, England and Melbourne and Sydney, Australia.

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.

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Item 3. Legal Proceedings.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

Omitted pursuant to General Instruction I(2)(c) of Form 10-K.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

As of December 31, 2008 and for the last two years, all of our membership interests are held by Liberty Media Corporation.

Holders

As of January 31, 2009, all of our membership interests are held by Liberty Media Corporation.

Dividends

We have not paid any cash distributions, and we have no present intention of so doing. Payment of cash distributions, if any, in the future will be determined by our sole member in light of our earnings, financial condition and other relevant considerations.

Item 6. Selected Financial Data.

Omitted pursuant to General Instruction I(2)(a) of Form 10-K.

Item 7. Management's Discussion and Analysis of Results of Operations.

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

Overview

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

Our "Corporate and Other" category includes our other consolidated subsidiaries and corporate expenses. Our other consolidated subsidiaries include Provide Commerce, Inc., Backcountry.com, Inc., Bodybuilding.com, LLC, Starz Media, LLC, FUN Technologies, Inc., Atlanta National League Baseball Club, Inc. ("ANLBC"), Liberty Sports Holdings, LLC ("Liberty Sports Group"), Leisure Arts, Inc., TruePosition, Inc., BuySeasons, Inc. and WFRV and WJMN Television Station, Inc. ("WFRV TV Station"). Provide operates an e-commerce marketplace of websites for perishable goods, including flowers and fruits and desserts, as well as upscale personalized gifts. Backcountry operates eight websites offering outdoor and backcountry sports gear and clothing. Bodybuilding manages two websites related to sports nutrition, body building and fitness. Starz Media is focused on developing, acquiring, producing and distributing live-action, computer-generated and traditional television animated productions for the home video, film, broadcast and direct-to-consumer markets. FUN operates websites that offer casual skill games and fantasy sports services. ANLBC owns the Atlanta Braves, a major league baseball club, as well as certain of the Atlanta Braves' minor league clubs.

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Liberty Sports Group is comprised of three regional sports television networks FSN Rocky Mountain, FSN Northwest and FSN Pittsburgh. Leisure Arts publishes and markets needlework, craft, decorating, entertaining and other lifestyle interest "how-to" books. TruePosition provides equipment and technology that deliver location-based services to wireless users. BuySeasons operates BuyCostumes.com and CelebrateExpress.com, online retailers of costumes, accessories, décor and party supplies. WFRV TV Station is a CBS broadcast affiliate that serves Green Bay, Wisconsin and Escanaba, Michigan.

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

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

At the time of the Split Off, LEI will hold our interests in DIRECTV (and related collars and debt), Liberty Sports Group, FUN, PicksPal and GSN. In addition we will transfer up to $300 million in cash to LEI prior to the Split Off. The Split Off is conditioned on, among other matters, receipt of stockholder approval and receipt of a private letter ruling from the IRS and a tax opinion from tax counsel and is expected to occur in the second quarter of 2009.

2008 Transactions

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

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

2007 Transactions

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

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

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

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

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

2006 Transactions

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

Discontinued Operations

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

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

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

Strategies and Challenges of Business Units

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

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

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QVC is continuing its efforts to reduce inventory levels and to limit extending credit when necessary to reduce bad debt expense.

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

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

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

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

Results of Operations

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

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Consolidated Operating Results

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Revenue			
QVC	$ 7,303	7,397	7,074
Starz Entertainment	1,111	1,066	1,033
Starz Media	321	254	86
Corporate and other	1,349	706	420
Consolidated Liberty	$ 10,084	9,423	8,613
Adjusted OIBDA			
QVC	$ 1,502	1,652	1,656
Starz Entertainment	301	264	186
Starz Media	(189)	(143)	(24)
Corporate and other	(31)	(42)	(35)
Consolidated Liberty	$ 1,583	1,731	1,783
Operating Income (Loss)			
QVC	$ 956	1,114	1,130
Starz Entertainment	(975)	210	163
Starz Media	(395)	(342)	(29)
Corporate and other	(332)	(242)	(243)
Consolidated Liberty	$ (746)	740	1,021

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

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

Adjusted OIBDA. We define Adjusted OIBDA as revenue less cost of sales, operating expenses and selling, general and administrative ("SG&A") expenses (excluding stock compensation). Our chief operating decision maker and management team use this measure of performance in conjunction with

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other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock compensation, separately disclosed litigation settlements and impairments of long-lived assets that are included in the measurement of operating income pursuant to generally accepted accounting principles ("GAAP"). Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 20 to the accompanying consolidated financial statements for a reconciliation of Adjusted OIBDA to Earnings From Continuing Operations Before Income Taxes and Minority Interest.

Consolidated Adjusted OIBDA decreased $148 million or 8.5% and $52 million or 2.9% in 2008 and 2007, respectively, as compared to the corresponding prior year. The decrease in 2008 is due primarily to QVC, as increases and decreases for our other subsidiaries largely offset each other. Starz Media's Adjusted OIBDA loss increased in 2008 primarily due to the timing of revenue and expenses associated with films released by Overture Films and Starz Animation in 2008 partially offset by a $53 million decrease in capitalized production cost write-offs. Theatrical print costs and advertising expenses related to the release of a film are recognized at the time the advertisements are run and generally exceed the theatrical revenue earned from the film. In addition, amortization of film production costs begins when revenue recognition begins. Although there can be no assurance, the expectation when films are approved for production or acquisition is that the ultimate revenue to be earned from theatrical release, home video and pay-per-view and premium television distribution, which revenue may be earned over several years, will exceed the costs associated with the film.

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

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

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

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

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

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

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

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

We believe that the foregoing impairment charges, which also include $29 million of impairments of intangible assets other than goodwill, are due in large part to the current economic crisis and the

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downward impact it has had on perceptions of future growth prospects and valuation multiples for our reporting units.

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

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

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

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

Operating income. We generated a consolidated operating loss of $746 million in 2008 and consolidated operating income of $740 million and $1,021 million in 2007 and 2006, respectively. The operating loss in 2008 is largely due to the impairment charges discussed above. The 2007 decrease in operating income is due primarily to increased operating losses of $313 million for Starz Media and $73 million for TruePosition. These losses were partially offset by improved operating results of $83 million for FUN and $47 million for Starz Entertainment. The improvement in FUN's operating loss from $140 million to $57 million was largely due to a $72 million difference in the 2007 and 2006 impairment charges.

Other Income and Expense

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

The 2007 decrease is the net effect of increased borrowings which were used to repurchase shares of LMC common stock, more than offset by the impact of our adoption of Statement of Financial Accounting Standards No. 155 ("Statement 155") on January 1, 2007. Statement 155 permits fair value remeasurement of hybrid financial instruments that contain an embedded derivative (such as our exchangeable senior debentures) that would otherwise require bifurcation. We previously reported the fair value of the call option feature of our exchangeable senior debentures separate from the long-term debt, and the long-term debt was accreted to its face amount through interest expense. Our 2006 interest expense included $95 million of such accretion.

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

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

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
DIRECTV	$ 404		
Expedia	(726)	68	50
Other	(516)	(46)	41
	$ (838)	22	91

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

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

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

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

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

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

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Statement 159 Securities(1)(4)	$ (2,887)		
Exchangeable senior debentures(2)(4)	1,509	541	(353)
Equity collars(4)	1,101	527	(59)
Borrowed shares(4)	791	298	(32)
Other derivatives(3)	(366)	(97)	165
	$ 148	1,269	(279)

(1) See note 2 to the accompanying consolidated financial statements for a discussion of our accounting for Statement 159 Securities.

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

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

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

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

	Years ended December 31,		
	2008	**2007**	**2006**
	amounts in millions		
Transaction			
News Corporation Exchange	$ 3,665		
Time Warner Exchange		582	
CBS Exchange		31	
Sale of investment in Court TV			303
Sale of investment in Freescale			256
Other, net	14	33	48
	$ 3,679	646	607

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

Other than temporary declines in fair value of investments. During 2008, 2007 and 2006, we determined that certain of our cost investments experienced other than temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based primarily on quoted market prices at the date each adjustment was deemed necessary. These adjustments are reflected as other than temporary declines in fair value of investments in our consolidated statements of operations. Our 2008 other than temporary declines include $440 million related to our investment in IAC.

Income taxes. In 2008, we have pre-tax income of $1,591 million and an income tax benefit of $2,200 million. Our effective tax rate was 15.6% in 2007 and 26.5% in 2006. The News Corporation Exchange completed in 2008 and the Time Warner Exchange and the CBS Exchange, which were completed in 2007, qualify as IRC Section 355 transactions, and therefore do not trigger federal or state income tax obligations. In addition, upon consummation of those exchange transactions, deferred tax liabilities previously recorded for the difference between our book and tax bases in our News Corporation investment and our Time Warner and CBS Corporation investments in the amount of $1,791 million and $354 million, respectively, were reversed with an offset to income tax benefit.

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

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

Net earnings. Our net earnings were $3,791 million, $2,212 million and $856 million for the years ended December 31, 2008, 2007 and 2006, respectively, and were the result of the above-described fluctuations in our revenue and expenses. In addition, we recognized earnings from discontinued operations of $149 million and $220 million for the years ended December 31, 2007 and 2006, respectively. Included in our 2006 earnings from discontinued operations are tax benefits of $236 million related to our excess outside tax basis in OPTV and AEG over our basis for financial reporting.

Operating Results by Business

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

QVC's operating results are as follows:

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

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Net revenue is generated in the following geographical areas:

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

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

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

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

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

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

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

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

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

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

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

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

Starz Entertainment's operating results are as follows:

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

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

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

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

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

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

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

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

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

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

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

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

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include investments in fixed and floating rate debt instruments and borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We have achieved this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity, (ii) issuing variable rate debt with appropriate maturities and interest rates and (iii) entering into interest rate swap arrangements when we deem appropriate. As of December 31, 2008, and considering the effects of our interest rate swap agreements, our debt is comprised of $10,591 million of fixed rate debt with a weighted average interest rate of 4.4% and $3,945 million of variable rate debt with a weighted average interest rate of 3.1%.

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 and other financial instruments to manage market risk associated with certain investment positions. These instruments are recorded at fair value based on option pricing models.

At December 31, 2008, the fair value of our AFS securities was $2,828 million. Had the market price of such securities been 10% lower at December 31, 2008, the aggregate value of such securities would have been $283 million lower. Such decrease would be partially offset by an increase in the value of our AFS Derivatives. Our exchangeable senior debentures are also subject to market risk. Because we mark these instruments to fair value each reporting date, increases in the stock price of the respective underlying security generally result in higher liabilities and unrealized losses in our statement of operations.

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

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

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

- execute our derivative instruments with several different counterparties, and

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

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

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

Our counterparty credit risk by financial institution is summarized below:

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

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

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements of Liberty Media LLC are filed under this Item, beginning on Page II-21. The financial statement schedules required by Regulation S-X are filed under Item 15 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer, principal accounting officer and principal financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of December 31, 2008 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

See page II-20 for *Management's Report on Internal Control Over Financial Reporting.*

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

Item 9B. Other Information.

None.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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Report of Independent Registered Public Accounting Firm

The Member
Liberty Media LLC:

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

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

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

As discussed in notes 2 and 6 to the accompanying consolidated financial statements, effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, *including an amendment of FASB Statement No. 115*, and SFAS No. 157, *Fair Value Measurements*, and effective January 1, 2007, the Company adopted SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140,* and Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, *an interpretation of FASB Statement No. 109*.

KPMG LLP

Denver, Colorado
March 24, 2009

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LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

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

(continued)

LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2008 and 2007

	2008	2007
	amounts in millions	
Liabilities and Member's Equity		
Current liabilities:		
Accounts payable	$ 550	605
Accrued interest	103	148
Other accrued liabilities	999	936
Financial instruments (note 10)	392	1,184
Current portion of debt (note 12)	868	191
Accrued stock compensation	196	207
Current deferred income tax liabilities (note 13)	781	93
Other current liabilities	236	153
Total current liabilities	4,125	3,517
Long-term debt, including $1,691 million and $3,690 million measured at fair value (note 12)	11,359	11,524
Long-term financial instruments (note 10)	189	176
Deferred income tax liabilities (note 13)	4,910	8,463
Other liabilities	1,551	1,565
Total liabilities	22,134	25,245
Minority interests in equity of subsidiaries	155	866
Member's equity:		
Member's equity	29,114	29,084
Note receivable from parent (note 18)	(4,384)	(3,602)
Accumulated other comprehensive earnings, net of taxes (note 17)	70	4,073
Accumulated deficit	(5,186)	(10,017)
Total member's equity	19,614	19,538
Commitments and contingencies (note 19)		
Total liabilities and member's equity	$ 41,903	45,649

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
	amounts in millions		
Revenue:			
Net retail sales	$ 8,079	7,802	7,326
Communications and programming services	2,005	1,621	1,287
	10,084	9,423	8,613
Operating costs and expenses:			
Cost of sales	5,224	4,925	4,565
Operating	2,126	1,920	1,600
Selling, general and administrative, including stock-based compensation (note 2)	1,201	940	732
Depreciation	192	163	119
Amortization	518	512	463
Impairment of long-lived assets (note 11)	1,569	223	113
	10,830	8,683	7,592
Operating income (loss)	(746)	740	1,021
Other income (expense):			
Interest expense	(719)	(641)	(680)
Dividend and interest income-third party	174	321	214
Interest income parent	209	156	26
Share of earnings (losses) of affiliates, net (note 8)	(838)	22	91
Realized and unrealized gains (losses) on financial instruments, net (note 10)	148	1,269	(279)
Gains on dispositions, net (notes 7 and 8)	3,679	646	607
Other than temporary declines in fair value of investments (note 7)	(441)	(33)	(4)
Gain on early extinguishment of debt (note 12)	240		
Other, net	(71)	(1)	18
	2,381	1,739	(7)
Earnings from continuing operations before income taxes and minority interest	1,635	2,479	1,014
Income tax benefit (expense) (note 13)	2,200	(381)	(262)
Minority interests in earnings of subsidiaries	(44)	(35)	(27)
Earnings from continuing operations	3,791	2,063	725
Earnings from discontinued operations, net of taxes (note 5)		149	220
Cumulative effect of accounting change, net of taxes (note 2)			(89)
Net earnings	$ 3,791	2,212	856

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

Years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
	amounts in millions		
Net earnings	$ 3,791	2,212	856
Other comprehensive earnings (loss), net of taxes (note 17):			
Foreign currency translation adjustments	(46)	95	110
Unrealized holding gains (losses) arising during the period	(812)	(1,556)	2,605
Recognition of previously unrealized gains on available-for-sale securities, net	(2,000)	(375)	(185)
Share of other comprehensive earnings of equity affiliates	(43)	3	1
Other	(62)	(46)	
Other comprehensive earnings (loss)	(2,963)	(1,879)	2,531
Comprehensive earnings	$ 828	333	3,387

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
	amounts in millions		
	(see note 3)		
Cash flows from operating activities:			
Net earnings	$ 3,791	2,212	856
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Earnings from discontinued operations		(149)	(220)
Cumulative effect of accounting change			89
Depreciation and amortization	710	675	582
Impairment of long-lived assets	1,569	223	113
Stock-based compensation	50	93	67
Cash payments for stock-based compensation	(24)	(40)	(115)
Noncash interest expense (income), net	(150)	(147)	82
Share of losses (earnings) of affiliates, net	838	(22)	(91)
Realized and unrealized losses (gains) on financial instruments, net	(148)	(1,269)	279
Gains on disposition of assets, net	(3,679)	(646)	(607)
Other than temporary declines in fair value of investments	441	33	4
Minority interests in earnings of subsidiaries	44	35	27
Deferred income tax expense (benefit)	(2,554)	116	(455)
Other noncash charges (credits), net	(80)	141	44
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions:			
Current assets	(180)	(436)	(302)
Payables and other current liabilities	17	341	660
Net cash provided by operating activities	645	1,160	1,013
Cash flows from investing activities:			
Cash proceeds from dispositions	43	495	1,322
Proceeds from origination of financial instruments			59
Proceeds from settlement of financial instruments	78	75	101
Cash received in exchange transactions	463	1,154	
Cash paid for acquisitions, net of cash acquired	(77)	(348)	(1,207)
Investments in and loans to cost and equity investees	(2,568)	(159)	(235)
Investment in special purpose entity		(750)	
Capital expenditures	(203)	(316)	(278)
Net sales (purchases) of short term investments	(25)	34	287
Net decrease (increase) in restricted cash	383	(882)	
Net cash transfers to parent	(573)	(2,474)	(953)
Other investing activities, net	(71)	(36)	66
Net cash used by investing activities	(2,550)	(3,207)	(838)
Cash flows from financing activities:			
Borrowings of debt	5,190	1,869	3,229
Repayments of debt	(2,992)	(498)	(2,191)
Settlement of financial instruments	(257)		25
Contribution from minority owner		751	
Other financing activities, net	(53)	(56)	(46)
Net cash provided by financing activities	1,888	2,066	1,017
Effect of foreign currency exchange rates on cash	17	8	18
Net cash provided by (to) discontinued operations:			

Cash provided by operating activities		8	62
Cash used by investing activities		(9)	(67)
Cash provided by financing activities			6
Change in available cash held by discontinued operations		2	
Net cash provided by discontinued operations		1	1
Net increase in cash and cash equivalents		28	1,211
Cash and cash equivalents at beginning of year	3,135	3,107	1,896
Cash and cash equivalents at end of year	$ 3,135	3,135	3,107

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY

Years ended December 31, 2008, 2007 and 2006

	Member's equity	Note receivable from parent	Accumulated other comprehensive earnings	Accumulated deficit	Common stock Series A	Common stock Series B	Additional paid-in capital	Total member's equity
	amounts in millions							
Balance at January 1, 2006	$		3,421	(13,278)	27	1	28,949	19,120
Net earnings				856				856
Other comprehensive earnings			2,531					2,531
Restructuring (note 1)	28,975				(27)	(1)	(28,947)	
Stock compensation	62							62
Contribution from parent for acquisition	36							36
Cash transfers to parent, net		(953)						(953)
Intercompany interest allocation		(26)						(26)
Other	(1)						(2)	(3)
Balance at December 31, 2006	29,072	(979)	5,952	(12,422)				21,623
Net earnings				2,212				2,212
Other comprehensive loss			(1,879)					(1,879)
Cumulative effects of accounting changes (note 2)				193				193
Stock compensation	24							24
Contribution from parent for acquisition		7						7
Cash transfers to parent, net		(2,474)						(2,474)
Intercompany interest allocation		(156)						(156)
Other	(12)							(12)
Balance at December 31, 2007	29,084	(3,602)	4,073	(10,017)				19,538
Net earnings				3,791				3,791
Other comprehensive loss			(2,963)					(2,963)
Cumulative effects of accounting changes (note 2)			(1,040)	1,040				
Stock compensation	35							35
Cash transfers to parent, net		(573)						(573)
Intercompany interest allocation		(209)						(209)
Other	(5)							(5)
Balance at December 31, 2008	$ 29,114	(4,384)	70	(5,186)				19,614

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008, 2007 and 2006

(1) Basis of Presentation

On May 9, 2006, Liberty Media Corporation ("LMC") completed a restructuring (the "Restructuring") pursuant to which LMC was organized as a new holding company. In the Restructuring, LMC issued shares of its two newly created tracking stocks, Liberty Capital and Liberty Interactive, in exchange for outstanding shares of Liberty Media LLC (formerly known as Liberty Media Corporation, "Liberty" or the "Company") and became the new publicly traded parent company of Liberty. Immediately prior to the Restructuring, LMC was a direct, wholly-owned subsidiary of Liberty. Also on May 9, 2006, in connection with and immediately subsequent to the Restructuring, Liberty converted from a Delaware corporation into a Delaware limited liability company.

The accompanying consolidated financial statements include the accounts of Liberty and its controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

(2) Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Receivables

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

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

Inventory

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

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

Program Rights

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

Investment in Films and Television Programs

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

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

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

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

Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale ("AFS") and are carried at fair value generally based on quoted market prices. Effective January 1, 2008, Liberty adopted the provisions of Statement of Financial Accounting Standards No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115"* ("Statement 159"). Statement 159 permits entities to choose to measure many financial instruments, such as AFS securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the entity's statement of operations. Previously under Statement of Financial Accounting Standards No. 115 ("Statement 115"), entities were required to recognize changes in fair value of AFS securities in the balance sheet in accumulated other comprehensive earnings. Liberty has entered into economic hedges for many of its non-strategic AFS securities (although such instruments are not accounted for as fair value hedges by the Company). Changes in the fair value of these economic hedges are reflected in Liberty's statement of operations as unrealized gains (losses). In order to better match the changes in fair value of the subject AFS

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

securities and the changes in fair value of the corresponding economic hedges in the Company's financial statements, Liberty has elected to apply the provisions of Statement 159 to those of its AFS securities ("Statement 159 Securities") which it considers to be non-strategic. Accordingly, changes in the fair value of Statement 159 Securities, as determined by quoted market prices, are reported in realized and unrealized gain (losses) on financial instruments in the accompanying December 31, 2008 consolidated statement of operations. The amount of unrealized gains related to the Statement 159 Securities and included in accumulated other comprehensive earnings in the Company's balance sheet as of the date of adoption of Statement 159 aggregated $1,040 million and has been reclassified to accumulated deficit. The total value of AFS securities for which the Company has elected the fair value option aggregated $2,089 million as of December 31, 2008. Liberty continues to account for its investment in IAC/InterActiveCorp under the provisions of Statement 115.

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

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

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

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

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LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

Derivative Instruments and Hedging Activities

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

- executes its derivative instruments with several different counterparties, and

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

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

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

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

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

instrument. The Company considers its own credit risk as well as the credit risk of its counterparties in estimating the discount rate. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of derivative instruments may differ materially from these estimates.

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

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

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

Property and Equipment

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

Intangible Assets

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

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Notes to Consolidated Financial Statements (Continued)

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

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

Impairment of Long-lived Assets

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

Minority Interests

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

Foreign Currency Translation

The functional currency of the Company is the United States ("U.S.") dollar. The functional currency of the Company's foreign operations generally is the applicable local currency for each foreign subsidiary. Assets and liabilities of foreign subsidiaries are translated at the spot rate in effect at the

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

applicable reporting date, and the consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in stockholders' equity.

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

Revenue Recognition

Revenue is recognized as follows:

Revenue from retail sales is recognized at the time of shipment to customers. An allowance for returned merchandise is provided as a percentage of sales based on historical experience. The total reduction in sales due to returns for the years ended December 31, 2008, 2007 and 2006 aggregated $1,760 million, $1,651 million and $1,554 million, respectively. Sales tax collected from customers on retail sales is recorded on a net basis and is not included in revenue.

Programming revenue is recognized in the period during which programming is provided, pursuant to affiliation agreements.

Revenue from sales and licensing of software and related service and maintenance is recognized pursuant to Statement of Position No. 97-2, "*Software Revenue Recognition*." For multiple element contracts with vendor specific objective evidence, the Company recognizes revenue for each specific element when the earnings process is complete. If vendor specific objective evidence does not exist, revenue is deferred and recognized on a straight-line basis over the remaining term of the maintenance period after all other elements have been delivered.

Revenue relating to proprietary films is recognized in accordance with Statement of Position (SOP) 00-02, *Accounting by Producers or Distributors of Films.* Revenue from the theatrical release of feature films is recognized at the time of exhibition based on the Company's participation in box office receipts. Revenue from television licensing is recognized when the film or program is complete in accordance with the terms of the arrangement, the license period has begun and is available for telecast or exploitation.

Cost of Sales

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

Advertising Costs

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

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

Stock-Based Compensation

FASB Statement 123R

As more fully described in note 15, LMC has granted to its directors, employees and employees of its subsidiaries options and stock appreciation rights ("SARs") to purchase shares of LMC common stock (collectively, "Awards"). In addition, QVC had granted combination stock options/SARs ("QVC Awards") to certain of its employees. The Company accounts for stock-based compensation pursuant to Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment*" ("Statement 123R"). Statement 123R generally requires companies to measure the cost of employee services received in exchange for an Award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the Award, and to recognize that cost over the period during which the employee is required to provide service (usually the vesting period of the Award). Statement 123R also requires companies to measure the cost of employee services received in exchange for an Award of liability instruments (such as stock appreciation rights that will be settled in cash) based on the current fair value of the Award, and to remeasure the fair value of the Award at each reporting date.

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

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

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

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

Income Taxes

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

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

and liabilities of an enacted change in tax rates is recognized in income in the period that includes the enactment date.

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

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

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

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

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Liberty considers (i) fair value measurements, (ii) its accounting for income taxes, (iii) its assessment of other than temporary declines in value of its investments and (iv) its estimates of retail related adjustments and allowances to be its most significant estimates.

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

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Recent Accounting Pronouncements

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

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

(3) Supplemental Disclosures to Consolidated Statements of Cash Flows

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

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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

(4) Split Off Transaction

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

At the time of the Split Off, LEI will hold Liberty's interests in DIRECTV (and related collars and debt), Liberty Sports Group, FUN, PicksPal and GSN. In addition Liberty will transfer up to $300 million in cash to LEI prior to the Split Off. The Split Off is conditioned on, among other matters, receipt of stockholder approval and receipt of a private letter ruling from the IRS and a tax opinion from tax counsel and is expected to occur in the second quarter of 2009. The Split Off will be accounted for at historical cost due to the fact that the LEI common stock is to be distributed pro rata to holders of Liberty Entertainment tracking stock.

(5) Discontinued Operations

Sale of OpenTV Corp.

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

Sale of Ascent Entertainment Group, Inc.

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

The consolidated financial statements and accompanying notes of Liberty have been prepared reflecting OPTV and AEG as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of these subsidiaries have been excluded from the respective

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

captions in the accompanying consolidated balance sheets, statements of operations, statements of comprehensive earnings and statements of cash flows and have been reported separately in such consolidated financial statements.

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

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

(6) Assets and Liabilities Measured at Fair Value

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

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

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

		Fair Value Measurements at December 31, 2008 Using		
Description	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
		amounts in millions		
Available-for-sale securities	$ 2,828	2,609	219	
Financial instrument assets	$ 2,485		2,485	
Financial instrument liabilities	$ 581	392	189	
Debt	$ 1,691		1,691	

The Company uses the Black Scholes Model to estimate fair value for the majority of its Level 2 financial instrument assets and liabilities using observable inputs such as exchange-traded equity prices, risk-free interest rates, dividend yields and volatilities obtained from pricing services. For the

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LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

Company's debt instruments reported at fair value, the Company gets quoted market prices from pricing services or from evidence of observable inputs, some of which may be obtained using third-party brokers. However, the Company does not believe such instruments are traded on "active markets," as defined in Statement 157. Accordingly, the debt instruments are reported in the foregoing table as Level 2 fair value.

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

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

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

	December 31,	
	2008	2007
	amounts in millions	
IAC/InterActiveCorp ("IAC")	$ 638	1,863
Time Warner Inc. ("Time Warner")(1)	1,033	1,695
Sprint Nextel Corporation ("Sprint")(2)	160	1,150
Motorola, Inc. ("Motorola")(3)	328	1,187
News Corporation		10,647
Other AFS equity securities(4)	445	836
Other AFS debt securities	224	156
Other cost investments and related receivables	31	35
Consolidated Liberty	$ 2,859	17,569

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

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

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

(4) Includes $54 million and $82 million of shares pledged as collateral for share borrowing arrangements at December 31, 2008 and 2007, respectively.

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

IAC/InterActiveCorp

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

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

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

Time Warner

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

CBS Corporation

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

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

News Corporation

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

Other Than Temporary Declines in Fair Value of Investments

During the years ended December 31, 2008, 2007 and 2006, Liberty determined that certain of its AFS securities and cost investments experienced other than temporary declines in value. The primary factors considered by Liberty in determining the timing of the recognition for these impairments was the length of time the investments traded below Liberty's cost bases, the severity of the declines and the lack of near-term prospects for recovery in the stock prices. As a result, the carrying amounts of such investments were adjusted to their respective fair values based primarily on quoted market prices

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at the balance sheet date. These adjustments are reflected as other than temporary declines in fair value of investments in the consolidated statements of operations. The Company's 2008 other than temporary declines in value include $440 million related to its investment in IAC.

Unrealized Holdings Gains and Losses

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

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

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

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

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

	December 31, 2008		December 31, 2007
	Percentage ownership	Carrying amount	Carrying amount
		dollar amounts in millions	
DIRECTV	54%	$ 13,085	
Expedia	24%	559	1,301
Other	various	846	516
		$ 14,490	1,817

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

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
DIRECTV	$ 404		
Expedia	(726)	68	50
Other	(516)	(46)	41
	$ (838)	22	91

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

DIRECTV

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

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

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

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

At the time of closing, the value attributed to Liberty's investment in DIRECTV exceeded Liberty's proportionate share of DIRECTV's equity by $8,022 million. Due to additional purchases of DIRECTV stock by Liberty and stock repurchases by DIRECTV, such excess basis has increased to $10,483 million as of December 31, 2008. Such amount has been allocated within memo accounts used for equity accounting purposes as follows (amounts in millions):

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

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

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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

	Years ended December 31,	
	2008	2007
	amounts in millions	
Revenue	$ 10,120	9,638
Earnings (loss) from continuing operations	$ (1,628)	2,235
Net earnings (loss)	$ (1,628)	2,384

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

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

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LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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

DIRECTV Consolidated Balance Sheet

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

DIRECTV Consolidated Statement of Operations

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

Expedia

Our share of losses of Expedia for the year ended December 31, 2008 includes a $119 million other than temporary impairment charge. The market value of the Company's investment in Expedia

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

was $570 million and $2,189 million at December 31, 2008 and 2007, respectively. Summarized unaudited financial information for Expedia is as follows:

Expedia Consolidated Balance Sheets

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

Expedia Consolidated Statements of Operations

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

Net earnings (loss)	$ (2,518)	296	245

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

Spin Off Companies from IAC

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

(9) Investment in Special Purpose Entity

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

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

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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

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

(10) Financial Instruments

Equity Collars

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

Borrowed Shares

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

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LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

The Company's financial instruments are summarized as follows:

Type of financial instrument	December 31, 2008	December 31, 2007
	amounts in millions	
Assets		
Equity collars	$ 2,392	1,458
Other	93	155
	2,485	1,613
Less current portion	(1,157)	(23)
	$ 1,328	1,590
Liabilities		
Borrowed shares	$ 392	1,183
Other	189	177
	581	1,360
Less current portion	(392)	(1,184)
	$ 189	176

Realized and Unrealized Gains (Losses) on Financial Instruments

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

	Years ended December 31, 2008	2007	2006
	amounts in millions		
Statement 159 Securities(1)	$ (2,887)		
Exchangeable senior debentures(2)	1,509	541	(353)
Equity collars	1,101	527	(59)
Borrowed shares	791	298	(32)
Other derivatives	(366)	(97)	165
	$ 148	1,269	(279)

(1) See note 2 regarding Liberty's accounting for its Statement 159 Securities.

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

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

(11) Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill are as follows:

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

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

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

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

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

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

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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

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

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

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

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

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

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are comprised of the following:

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

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

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

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(12) Long-Term Debt

Debt is summarized as follows:

	Outstanding principal December 31, 2008	Carrying value December 31, 2008	Carrying value December 31, 2007
	amounts in millions		
Senior notes and debentures			
7.875% Senior Notes due 2009	$ 104	104	668
7.75% Senior Notes due 2009	13	13	234
5.7% Senior Notes due 2013	803	801	801
8.5% Senior Debentures due 2029	287	284	495
8.25% Senior Debentures due 2030	505	501	895
Exchangeable senior debentures			
3.125% Exchangeable Senior Debentures due 2023	1,264	918	1,820
4% Exchangeable Senior Debentures due 2029	869	256	556
3.75% Exchangeable Senior Debentures due 2030	810	241	463
3.5% Exchangeable Senior Debentures due 2031	497	138	432
3.25% Exchangeable Senior Debentures due 2031	551	138	419
DIRECTV Collar Loan	1,981	1,981	
Liberty bank facility	750	750	750
Liberty derivative loan	625	625	
QVC bank credit facilities	5,230	5,230	4,023
Other subsidiary debt	247	247	159
Total consolidated Liberty debt	$ 14,536	12,227	11,715
Less current maturities		(868)	(191)
Total long-term debt		$ 11,359	11,524

Senior Notes and Debentures

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

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

Senior Notes Due 2009

On September 26, 2008, Liberty commenced cash tender offers for any and all of its outstanding $7^7/_8$% Senior Notes due 2009 ("$7^7/_8$% Notes") and $7^3/_4$% Senior Notes due 2009 ("$7^3/_4$% Notes"). The tender offers expired on October 27, 2008.

In the tender offer for the $7^7/_8$% Notes, Liberty offered to pay total consideration of $1,007.50 for each $1,000 principal amount tendered and accepted for purchase, which included an early tender premium of $10.00 per $1,000 principal amount of $7^7/_8$% Notes.

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In the tender offer for the $7^{3}/_{4}$% Notes, Liberty offered to pay total consideration of $1,006.50 for each $1,000 principal amount tendered and accepted for purchase, which included an early tender premium of $10.00 per $1,000 principal amount of $7^{3}/_{4}$% Notes.

Holders of approximately $566 million aggregate principal amount of $7^{7}/_{8}$% Notes and approximately $216 million aggregate principal amount of $7^{3}/_{4}$% Notes validly tendered their Notes pursuant to the tender offers, and Liberty accepted for payment all such Notes. In October 2008, Liberty paid a total of $803 million, including accrued interest of $15 million to settle all Notes tendered and accepted and recognized a loss on early extinguishment of $7 million.

In addition to the foregoing tender offers, Liberty opted to settle a debt swap with respect to $4.9 million principal amount of the $7^{3}/_{4}$% Notes.

Senior Debentures due 2029 and 2030

On November 3, 2008, Liberty commenced cash tender offers for the maximum amount of its outstanding $8^{1}/_{2}$% Senior Debentures due 2029 ("$8^{1}/_{2}$% Debentures") and $8^{1}/_{4}$% Senior Debentures due 2030 ("$8^{1}/_{4}$% Debentures") that could be purchased for $285 million at a purchase price per $1,000 principal amount determined in accordance with the procedures of a modified "Dutch Auction." Based on the Debentures that were tendered and the prices at which they were tendered, the purchase price to be paid by Liberty was determined to be $587.50 per $1,000 principal amount. The tender offer was oversubscribed, and the aggregate amount of Debentures validly tendered would have caused Liberty to spend more than $285 million. Therefore, Liberty accepted validly tendered Debentures on a prorated basis resulting in $175.8 million aggregate principal amount of $8^{1}/_{2}$% Debentures and $309.4 million aggregate principal amount of $8^{1}/_{4}$% Debentures for repurchase and recognized a gain on early extinguishment of $247 million.

In addition to the foregoing tender offers, Liberty opted to settle debt swaps with respect to $87.8 million principal amount of the $8^{1}/_{4}$% Debentures and $37.0 million principal amount of the $8^{1}/_{2}$% Debentures.

Exchangeable Senior Debentures

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

The holders of Liberty's 0.75% Exchangeable Senior Debentures due 2023, which had an aggregate principal amount of approximately $1.75 billion, had the right to put such debentures to Liberty at 100% of par during the period from February 25, 2008 to March 24, 2008 for payment on March 31, 2008. Holders of approximately $486 million principal amount of debentures surrendered them for repurchase. Liberty elected to pay cash for the validly tendered debentures and obtained the necessary cash with borrowings against one of its equity collars. In addition, Liberty modified the terms of the debentures. Such modifications included (i) deferral of Liberty's ability to redeem the debentures from

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April 5, 2008 to April 5, 2013, (ii) surrender of Liberty's right to pay holders with shares of Time Warner common stock upon maturity or redemption (but continue to allow Liberty to settle with Time Warner stock upon exchange or put by a holder) and (iii) increasing the rate of interest from 0.75% to 3.125% beginning March 30, 2008.

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

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

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

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

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

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

Liberty Derivative Borrowing

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

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collateralized by the puts underlying the Collar Loan and 170 million shares of DIRECTV common stock owned by Liberty.

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

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

Liberty Bank Facility

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

Liberty Derivative Loan

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

QVC Bank Credit Facilities

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

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

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

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

QVC Interest Rate Swap Arrangements

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

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

Other Subsidiary Debt

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

Five Year Maturities

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

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

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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 securities that are not reported at fair value in the accompanying consolidated balance sheets is as follows:

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

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

(13) Income Taxes

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Current:			
Federal	$ (240)	(91)	(513)
State and local	(20)	(81)	(92)
Foreign	(94)	(93)	(112)
	(354)	(265)	(717)
Deferred:			
Federal	2,253	(141)	352
State and local	291	24	99
Foreign	10	1	4
	2,554	(116)	455
Income tax benefit (expense)	$2,200	(381)	(262)

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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,		
	2008	2007	2006
	amounts in millions		
Computed expected tax expense	$ (557)	(855)	(346)
Nontaxable exchange of investments for subsidiaries and cash	2,931	541	
Change in estimated foreign and state tax rates	2	(4)	130
State and local income taxes, net of federal income taxes	171	(40)	(34)
Foreign taxes, net of foreign tax credits	31	(1)	(20)
Change in valuation allowance affecting tax expense	2	(9)	76
Impairment of goodwill not deductible for tax purposes	(462)	(11)	(39)
Disposition of nondeductible goodwill in sales transaction			(43)
Minority interest	(15)	(3)	(10)
Recognition of tax benefits (expense) not previously recognized, net	75	(6)	(5)
Dividends received deduction		12	12
Disqualifying disposition of incentive stock options not deductible for book purposes			14
Other, net	22	(5)	3
Income tax benefit (expense)	$2,200	(381)	(262)

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

	December 31, 2008	December 31, 2007
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 356	310
Accrued stock compensation	89	90
Other accrued liabilities	259	206
Deferred revenue	370	316
Other future deductible amounts	142	117
Deferred tax assets	1,216	1,039
Valuation allowance	(62)	(63)
Net deferred tax assets	1,154	976
Deferred tax liabilities:		
Investments	2,932	5,972
Intangible assets	2,147	2,284
Discount on exchangeable debentures	1,652	1,167
Other	114	109
Deferred tax liabilities	6,845	9,532
Net deferred tax liabilities	$ 5,691	8,556

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

	December 31, 2008	December 31, 2007
	amounts in millions	
Current deferred tax liabilities	$ 781	93
Long-term deferred tax liabilities	4,910	8,463
Net deferred tax liabilities	$ 5,691	8,556

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

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

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

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

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

A reconciliation of unrecognized tax benefits is as follows:

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

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

As of December 31, 2008, the Company's 2001 through 2004 tax years are closed for federal income tax purposes, and the IRS has completed its examination of the Company's 2005 through 2007 tax years. The Company's tax loss carryforwards from its 2004 through 2007 tax years are still subject to adjustment. The Company's 2008 tax year is being examined currently as part of the IRS's Compliance

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Assurance Process ("CAP") program. The states of California and New York are currently examining the Company's 2003 through 2005 tax years. The Company is currently under audit in the UK, Japan, and Germany. It is reasonably possible that the amount of the Company's gross unrecognized tax benefits may increase within the next twelve months by up to $12 million.

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

(14) Transactions with Officers and Directors

Chairman's Employment Agreement

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

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

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

Stock Purchases from Chairman

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

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(15) Stock Options and Stock Appreciation Rights

LMC Incentive Plans

Pursuant to the Liberty Media Corporation 2000 Incentive Plan, as amended from time to time (the "2000 Liberty Incentive Plan"), certain employees of the Company hold stock options and SARs (collectively, "Awards") to purchase shares of Series A and Series B Liberty Capital, Liberty Entertainment and Liberty Interactive common stock. The 2000 Liberty Incentive Plan provides for Awards to be made in respect of a maximum of 82.2 million shares of LMC common stock. On May 1, 2007, shareholders of LMC approved the Liberty Media Corporation 2007 Incentive Plan. The 2007 Plan provides for Awards to be made in respect of a maximum of 51.4 million shares of LMC common stock. LMC issues new shares upon exercise of equity awards.

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

LMC Grants

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

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

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

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

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

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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

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

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

LMC Outstanding Awards

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

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

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

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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

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

LMC Exercises

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

LMC Restricted Stock

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

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

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

QVC Awards

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

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

and the fair value of unvested QVC Awards was reflected as a reduction to 2006 stock-based compensation.

Also on August 14, 2006, a subsidiary of Liberty offered to purchase for cash all outstanding shares of QVC common stock owned by officers and employees of QVC and all vested QVC Awards (the "Tender Offer"). The Exchange Offer and the Tender Offer both expired on September 30, 2006. All vested QVC Awards and substantially all outstanding shares of QVC common stock were tendered as of September 30, 2006 resulting in cash payments aggregating approximately $258 million. The remaining shares of QVC common stock were redeemed subsequent to September 30, 2006 for additional aggregate cash payments of approximately $17 million. Liberty accounted for the cash paid for outstanding shares of QVC common stock as the acquisition of a minority interest. The difference between the cash paid and the carrying value of the minority interest was allocated to intangible assets using a purchase accounting model. The cash paid for vested options was less than the carrying value of the related liability. Such difference was reflected as a reduction to 2006 stock-based compensation. The aggregate credit to stock-based compensation for the Exchange Offer and the Tender Offer was $24 million.

Starz Entertainment

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

Other

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

(16) Employee Benefit Plans

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

(17) Other Comprehensive Earnings (Loss)

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

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LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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

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

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

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

Unrealized holding gains on securities arising during period	4,202	(1,597)	2,605
Reclassification adjustment for holding gains realized in net loss	(298)	113	(185)
Share of other comprehensive earnings of equity affiliates	2	(1)	1
Other comprehensive earnings	$ 4,083	(1,552)	2,531

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

(18) Transactions with Related Parties

The Company has made interest-bearing cash advances to LMC. Such advances, including accrued interest, aggregated $4,384 million as of December 31, 2008. Interest, which accrues daily at 1-year LIBOR plus 1.35% (4.53% at December 31, 2008), aggregated $209 million, $156 million and $26 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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

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

(19) Commitments and Contingencies

Film Rights

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

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

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

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

Guarantees

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

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

Sports Rights

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

Employment Contracts

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

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

Operating Leases

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

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

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

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

Litigation

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

Other

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

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

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Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

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

(20) Information About Liberty's Operating Segments

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

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

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

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

QVC consolidated subsidiary that markets and sells a wide variety of consumer products in the United States and several foreign countries, primarily by means of televised shopping programs on the QVC networks and via the Internet through its domestic and international websites.

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

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Starz Media consolidated subsidiary that develops, acquires, produces and distributes live-action and animated films and television productions for the home video, film, broadcast and direct-to-consumer markets.

DIRECTV equity affiliate that provides digital television entertainment delivered by satellite in the United States and Latin America.

Expedia equity affiliate that provides travel services to leisure and corporate travelers.

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

Performance Measures

	Years ended December 31,					
	2008		2007		2006	
	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA	Revenue	Adjusted OIBDA
	amounts in millions					
QVC	$ 7,303	1,502	7,397	1,652	7,074	1,656
Starz Entertainment	1,111	301	1,066	264	1,033	186
Starz Media	321	(189)	254	(143)	86	(24)
Corporate and other	1,349	(31)	706	(42)	420	(35)
Consolidated Liberty	$ 10,084	1,583	9,423	1,731	8,613	1,783
Equity Affiliates						
DIRECTV	$ 19,693	5,015				
Expedia	$ 2,937	636	2,665	607	2,238	509

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LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2008, 2007 and 2006

Other Information

	December 31,					
	2008			2007		
	Total assets	Investments in affiliates	Capital expenditures	Total assets	Investments in affiliates	Capital expenditures
	amounts in millions					
QVC	$21,567	8	144	20,620		276
Starz Entertainment	1,462		7	2,773		10
Starz Media	654		3	661		5
Corporate and other	26,055	14,482	49	28,319	1,817	25
	49,738	14,490	203	52,373	1,817	316
Intercompany eliminations	(7,835)			(6,724)		
Consolidated Liberty	$41,903	14,490	203	45,649	1,817	316
Equity Affiliates						
DIRECTV	$16,539		2,229			
Expedia	$ 5,894		160	8,295		87

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

	Years ended December 31,		
	2008	2007	2006
	amounts in millions		
Consolidated segment Adjusted OIBDA	$ 1,583	1,731	1,783
Stock-based compensation	(50)	(93)	(67)
Depreciation and amortization	(710)	(675)	(582)
Impairment of long-lived assets	(1,569)	(223)	(113)
Interest expense	(719)	(641)	(680)
Share of earnings (losses) of affiliates	(838)	22	91
Realized and unrealized gains (losses) on derivative instruments, net	148	1,269	(279)
Gains on dispositions, net	3,679	646	607
Other than temporary declines in fair value of investments	(441)	(33)	(4)
Other, net	552	476	258
Earnings from continuing operations before income taxes and minority interest	$ 1,635	2,479	1,014

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

Long-lived Assets by Geographic Area

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

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PART III.

Item 10. Directors, Executive Officers and Corporate Governance

Omitted pursuant to General Instruction I(2)(c) of Form 10-K

Item 11. Executive Compensation

Omitted pursuant to General Instruction I(2)(c) of Form 10-K

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Omitted pursuant to General Instruction I(2)(c) of Form 10-K

Item 13. Certain Relationships and Related Transactions, and Director Independence

Omitted pursuant to General Instruction I(2)(c) of Form 10-K

Item 14. Principal Accountant Fees and Services

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of our annual financial statements, including our consolidated subsidiaries, for 2008 and 2007, and fees billed for other services rendered by KPMG LLP:

	2008	2007
Audit fees	$5,466,000	5,816,000
Audit related fees(1)	370,000	236,000
Audit and audit related fees	5,836,000	6,052,000
Tax fees(2)	1,056,000	1,914,000
Total fees	$6,892,000	7,966,000

(1) Audit related fees consisted of professional consultations with respect to accounting issues affecting our financial statements, reviews of registration statements and issuance of consents, 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.

LMC's 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

We are a wholly owned subsidiary of LMC, which is our sole member-manager. Accordingly, we do not have a separate board of directors or audit committee. The audit committee of LMC's board of directors acts on our behalf. We and LMC share the same independent auditor, KPMG LLP.

On May 5, 2006, the audit committee of LMC adopted a policy regarding the pre-approval of all audit and permissible non-audit services provided by the independent auditor. Pursuant to this policy, LMC's audit committee has approved the engagement of the independent auditor to provide the following services (collectively the pre-approved services):

- audit services as specified in the policy, including (i) financial audits of LMC and its subsidiaries, (ii) services associated with periodic reports, registration statements and other documents filed or issued in connection with a securities offering (including comfort letters and consents), (iii) attestations of management's reports on internal controls and (iv) consultations with management as to accounting or reporting of transactions;

- audit related services as specified in the policy, including (i) due diligence services, (ii) financial audits of employee benefit plans, (iii) attestation services not required by statute or regulation, (iv) certain audits incremental to the audit of LMC's consolidated financial statements, and (v) closing balance sheet audits related to dispositions; and

- 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.

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 LMC's audit committee. In addition, any engagement of independent auditors for services other than the pre-approved services requires the specific approval of LMC's audit committee. LMC's audit committee has delegated the authority for the foregoing approvals to the chairman of the audit committee, subject to his subsequent disclosure to the entire audit committee of the granting of any such approval. Donne F. Fisher currently serves as the chairman of LMC's audit committee.

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

All services provided to us by the independent auditor during 2008 were approved in accordance with the terms of the policy.

PART IV.

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) *Financial Statements*

Included in Part II of this Report:

(a)(3) *Exhibits*

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

3 Articles of Incorporation and Bylaws:

3.1 Certificate of Formation of Liberty Media LLC ("Liberty"), dated May 9, 2006 (incorporated by reference to Exhibit 3.1 to Liberty's Current Report on Form 8-K (File No. 001-16615) as filed on May 15, 2006 (the "May 2006 8-K")).

3.2 Certificate of Conversion to Limited Liability Company of LMC MergerSub, Inc. to Liberty Media LLC, dated May 9, 2006 (incorporated by reference to Exhibit 3.2 to the May 2006 8-K).

3.3 Limited Liability Company Operating Agreement of Liberty, dated May 9, 2006 (incorporated by reference to Exhibit 3.3 to the May 2006 8-K).

4 Instruments Defining the Rights of Securities Holders, including Indentures:

4.1 Indenture, dated as of July 7, 1999, between Liberty and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 of Liberty (File No. 333-86491) as filed on September 3, 1999, the "Liberty S-4 Registration Statement").

4.2 The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith.

10 Material Contracts:

10.1 Tax Sharing Agreement dated as of March 9, 1999, by and among AT&T Corp., Liberty, Tele-Communications, Inc., Liberty Ventures Group LLC, Liberty Media Group LLC, TCI Starz, Inc., TCI CT Holdings, Inc. and each Covered Entity listed on the signature pages thereof (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-4 of Liberty (File No. 333-86491) as filed on September 3, 1999 (the "Liberty S-4 Registration Statement")).

10.2 First Amendment to Tax Sharing Agreement dated as of May 28, 1999, by and among AT&T Corp., Liberty, Tele-Communications, Inc., Liberty Ventures Group LLC, Liberty Media Group LLC, TCI Starz, Inc., TCI CT Holdings, Inc. and each Covered Entity listed on the signature pages thereof (incorporated by reference to Exhibit 10.5 to the Liberty S-4 Registration Statement).

10.3 Second Amendment to Tax Sharing Agreement dated as of September 24, 1999, by and among AT&T Corp., Liberty, Tele-Communications, Inc., Liberty Ventures Group LLC, Liberty Media Group LLC, TCI Starz, Inc., TCI CT Holdings, Inc. and each Covered Entity listed on the signature pages thereof (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 of Liberty (File No. 333-93917) as filed on December 30, 1999 (the "Liberty S-1 Registration Statement")).

10.4 Third Amendment to Tax Sharing Agreement dated as of October 20, 1999, by and among AT&T Corp., Liberty, Tele-Communications, Inc., Liberty Ventures Group LLC, Liberty Media Group LLC, TCI Starz, Inc., TCI CT Holdings, Inc. and each Covered Entity listed on the signature pages thereof (incorporated by reference to Exhibit 10.7 to the Liberty S-l Registration Statement).

10.5

Fourth Amendment to Tax Sharing Agreement dated as of October 28, 1999, by and among AT&T Corp., Liberty, Tele-Communications, Inc., Liberty Ventures Group LLC, Liberty

Media Group LLC, TCI Starz, Inc., TCI CT Holdings, Inc. and each Covered Entity listed on the signature pages thereof (incorporated by reference to Exhibit 10.8 to the Liberty S-l Registration Statement).

10.6	Fifth Amendment to Tax Sharing Agreement dated as of December 6, 1999, by and among AT&T Corp., Liberty, Tele-Communications, Inc., Liberty Ventures Group LLC, Liberty Media Group LLC, TCI Starz, Inc., TCI CT Holdings, Inc. and each Covered Entity listed on the signature pages thereof (incorporated by reference to Exhibit 10.9 to the Liberty S-l Registration Statement).
10.7	Sixth Amendment to Tax Sharing Agreement dated as of December 10, 1999, by and among AT&T Corp., Liberty, Tele-Communications, Inc., Liberty Ventures Group LLC, Liberty Media Group LLC, TCI Starz, Inc., TCI CT Holdings, Inc. and each Covered Entity listed on the signature pages thereof (incorporated by reference to Exhibit 10.10 to the Liberty S-l Registration Statement).
10.8	Seventh Amendment to Tax Sharing Agreement dated as of December 30, 1999, by and among AT&T Corp., Liberty, Tele-Communications, Inc., Liberty Ventures Group LLC, Liberty Media Group LLC, TCI Starz, Inc., TCI CT Holdings, Inc. and each Covered Entity listed on the signature pages thereof (incorporated by reference to Exhibit 10.11 to the Liberty S-l Registration Statement).
10.9	Eighth Amendment to Tax Sharing Agreement dated as of July 25, 2000, by and among AT&T Corp., Liberty, Tele-Communications, Inc., Liberty Ventures Group LLC, Liberty Media Group LLC, TCI Starz, Inc., TCI CT Holdings, Inc. and each Covered Entity listed on the signature pages thereof (incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-1 of Liberty (File No. 333-55998) as filed on February 21, 2001).
10.10	Instrument dated January 14, 2000, adding The Associated Group, Inc. as a party to the Tax Sharing Agreement dated as of March 9, 1999, as amended, among The Associated Group, Inc., AT&T Corp., Liberty, Tele-Communications, Inc., Liberty Ventures Group LLC, Liberty Media Group LLC, TCI Starz, Inc., TCI CT Holdings, Inc. and each Covered Entity listed on the signature pages thereof (incorporated by reference to Exhibit 10.12 to the Liberty S-1 Registration Statement).
10.11	Restated and Amended Employment Agreement dated November 1, 1992, between Tele-Communications, Inc. and John C. Malone (assumed by Liberty as of March 9, 1999), and the amendment thereto dated June 30, 1999 and effective as of March 9, 1999, between Liberty and John C. Malone (collectively, the "Malone Employment Agreement") (incorporated by reference to Exhibit 10.6 to the Liberty S-4 Registration Statement).
10.12	Second Amendment to Malone Employment Agreement effective January 1, 2003 (incorporated by reference to Exhibit 10.15 to Liberty's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-16615) as filed on March 15, 2004).
10.13	Third Amendment to Malone Employment Agreement effective January 1, 2007 (incorporated by reference to Exhibit 10.13 to Liberty Media Corporation's ("LMC") Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-33982) as filed on February 27, 2009 (the "LMC 2008 10-K")).
10.14	Fourth Amendment to Malone Employment Agreement effective January 1, 2009 (incorporated by reference to Exhibit 10.14 to the LMC 2008 10-K).

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10.15
Liberty Media Corporation 2006 Deferred Compensation Plan (incorporated by reference to Exhibit 99.1 to LMC's Current Report on Form 8-K (File No. 000-51990) as filed on January 5, 2007).

10.16
Employment Agreement, dated as of December 28, 2005, between Liberty and Mr. Bennett (incorporated by reference to Exhibit 99.1 to Liberty's Current Report on Form 8-K (File No. 001-16615) as filed on December 30, 2005).

10.17
Letter Agreement regarding personal use of LMC's aircraft, dated as of February 22, 2008, between Gregory B. Maffei and LMC (incorporated by reference to Exhibit 10.38 to LMC's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 000-51990) as filed on February 29, 2008).

10.18
$3,500,000,000 Credit Agreement, dated as of March 3, 2006, among QVC, Inc., as Borrower; the Lenders party hereto; JP Morgan Chase Bank, N.A., as Administrative Agent; and Wachovia Capital Markets, LLC, as Syndication Agent (the "March 2006 Credit Agreement") (incorporated by reference to Exhibit 10.1 to Liberty's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (File No. 001-16615) as filed on May 8, 2006).

10.19
Amendment dated October 4, 2006 to the March 2006 Credit Agreement (incorporated by reference to Exhibit 99.2 to LMC's Current Report on Form 8-K (File No. 000-51990) as filed on October 10, 2006 (the "October 2006 8-K")).

10.20
$1,750,000,000 Credit Agreement, dated as of October 4, 2006 among QVC, Wachovia Bank, N.A., as Administrative Agent, Bank of America N.A. and J.P. Morgan Securities Inc., as Syndication Agents, and the lenders party thereto from time to time (incorporated by reference to Exhibit 99.1 to the October 2006 8-K).

10.21
Share Exchange Agreement, dated as of December 22, 2006, by and between News Corporation and LMC (the "News Agreement") (incorporated by reference to Exhibit 10.38 to LMC's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 000-51990) as filed on March 1, 2007).

10.22
Tax Matters Agreement, dated as of December 22, 2006, by and between News Corporation and LMC (which is Exhibit A-I to the News Agreement) (incorporated by reference to Exhibit 10.39 to LMC's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 000-51990) as filed on March 1, 2007).

10.23
Letter Agreement, dated as of May 6, 2008, by and among The DirecTV Group, Inc., LMC, Greenlady Corporation and Greenlady II, LLC (incorporated by reference to Exhibit 10.1 to The DirecTV Group, Inc.'s Current Report on Form 8-K (File No. 001-31945) as filed on May 7, 2008).

31.1
Rule 13a-14(a)/15d-14(a) Certification.*

31.2
Rule 13a-14(a)/15d-14(a) Certification.*

31.3
Rule 13a-14(a)/15d-14(a) Certification.*

32
Section 1350 Certification.*

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Filed herewith.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of The DIRECTV Group, Inc.
El Segundo, California

We have audited the accompanying consolidated balance sheets of The DIRECTV Group, Inc. (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules 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, such consolidated financial statements present fairly, in all material respects, the financial position of The DIRECTV Group, Inc. at December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 2 of the Notes to the Consolidated Financial Statements, effective January 1, 2007, the Company adopted Financial Accounting Standards Board, or FASB, Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*; effective December 31, 2007, the Company adopted the measurement date provision of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R).*

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
February 26, 2009

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THE DIRECTV GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2008	2007	2006
	(Dollars in Millions, Except Per Share Amounts)		
Revenues	$ 19,693	$ 17,246	$ 14,755
Operating costs and expenses			
Costs of revenues, exclusive of depreciation and amortization expense			
Broadcast programming and other	8,298	7,346	6,201
Subscriber service expenses	1,290	1,240	1,111
Broadcast operations expenses	360	323	286
Selling, general and administrative expenses, exclusive of depreciation and amortization expense			
Subscriber acquisition costs	2,429	2,096	1,945
Upgrade and retention costs	1,058	976	870
General and administrative expenses	1,243	1,095	1,069
Gain from disposition of businesses			(118)
Depreciation and amortization expense	2,320	1,684	1,034
Total operating costs and expenses	16,998	14,760	12,398
Operating profit	2,695	2,486	2,357
Interest income	81	111	146
Interest expense	(360)	(235)	(246)
Other, net	55	26	42
Income from continuing operations before income taxes and minority interests	2,471	2,388	2,299
Income tax expense	(864)	(943)	(866)
Minority interests in net earnings of subsidiaries	(92)	(11)	(13)
Income from continuing operations	1,515	1,434	1,420
Income from discontinued operations, net of taxes	6	17	
Net income	$ 1,521	$ 1,451	$ 1,420
Basic earnings per common share:			
Income from continuing operations	$ 1.36	$ 1.20	$ 1.13
Income from discontinued operations, net of taxes	0.01	0.01	
Net income	$ 1.37	$ 1.21	$ 1.13
Diluted earnings per common share:			
Income from continuing operations	$ 1.36	$ 1.20	$ 1.12
Income from discontinued operations, net of taxes	0.01	0.01	
Net income	$ 1.37	$ 1.21	$ 1.12
Weighted average number of common shares outstanding (in millions):			
Basic	1,110	1,195	1,262

Diluted	1,114	1,202	1,270

The accompanying notes are an integral part of these Consolidated Financial Statements.

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THE DIRECTV GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(Dollars in Millions, Except Share Data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,005	$ 1,083
Accounts receivable, net	1,423	1,535
Inventories	192	193
Deferred income taxes	68	90
Prepaid expenses and other	356	245
Total current assets	4,044	3,146
Satellites, net	2,476	2,026
Property and equipment, net	4,171	3,807
Goodwill	3,753	3,669
Intangible assets, net	1,172	1,577
Investments and other assets	923	838
Total assets	$ 16,539	$ 15,063
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,115	$ 3,032
Unearned subscriber revenues and deferred credits	362	354
Current portion of long-term debt	108	48
Total current liabilities	3,585	3,434
Long-term debt	5,725	3,347
Deferred income taxes	524	567
Other liabilities and deferred credits	1,749	1,402
Commitments and contingencies		
Minority interests redeemable at fair value of $325 million as of December 31, 2008	103	11
Stockholders' equity		
Common stock and additional paid-in capital $0.01 par value, 3,000,000,000 shares authorized, 1,024,182,043 shares and 1,148,268,203 shares issued and outstanding at December 31, 2008 and December 31, 2007, respectively	8,540	9,318
Accumulated deficit		