LIBERTY

Liberty Media Corporation
Annual Report
April 2002

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To Our Shareholders:

Welcome to the new Liberty Media Corporation.

The last time we provided a shareholder report was in April 2000. The world in which we live has changed dramatically since then and a dynamic financial and economic climate has created both challenges and opportunities for the extended Liberty family. As a result, we have continued to refine our business tactics and our corporate structure to position ourselves to address these challenges and to create new opportunities in a way that fulfills Liberty's established goal to maximize shareholder value over the long-term.

Our longtime shareholders will recall that this is the fourth stage of Liberty Media's evolution. The first was in 1991 when Liberty was created through a rights offering by Tele-Communications, Inc. (TCI). At the time, we held a combination of both cable and programming assets. That initial phase ended in 1994 when we were reacquired by TCI. Liberty II got its start in 1995 when TCI distributed Liberty Media tracking stock to its shareholders. In this iteration, our principal assets were composed of holdings in domestic programming networks. In 1999, AT&T acquired TCI and issued tracking shares in Liberty III to the former holders of TCI's Liberty and TCI Ventures tracking stocks. The combination with TCI Ventures added technology, wireless telephone and international cable and programming businesses to our asset mix. The current version, Liberty IV, was created in August 2001 when Liberty split-off from AT&T.

Liberty's evolution over the past 11 years reflects the dynamic opportunism that is at the core of our strategy and our enterprise. We are today and indeed, have always been, focused on creating long-term value for our shareholders. We are neither trying to grow our reported earnings by a constant rate nor trying to meet particular financial ratios. We manage our business portfolio with a single goal: to maximize the overall returns on our invested equity over a rolling five- to seven-year period. We believe that consistent application of this philosophy, combined with discipline, patience, focus and a prudent capital structure will result in superior long-term returns for our shareholders.

A Consistent, Disciplined Approach to Value Creation

Our approach to value creation has always had three primary components.

- The first component is growth of our business operations. This includes expansion of existing businesses and investment in new opportunities.
- The second component is execution of transactional activity. This includes acquisitions and investments that start a new business or add to an existing one. It also encompasses business combinations in which we seek to amalgamate our businesses with others to improve scale economics, enhance the liquidity of our holdings or in some case, exit the business.

- The third and final component is management of our capital structure. We employ a range of financial techniques to raise capital, manage interest rate and foreign currency risk, reduce exposure and/or benefit from market fluctuations in some of our publicly traded company holdings, and maintain our access to capital markets.

An Excellent Year for Our Non-Public Affiliates

Several of our affiliated companies are publicly traded and produce their own annual reports. Therefore, we will only highlight the 2001 performance of our non-public affiliates in this report.

StarzEncore Group (SEG) had a very good year with 18 percent revenue growth and a 33 percent increase in operating cash flow (defined here as earnings before interest, depreciation, stock-related compensation and amortization). The revenue increase reflects the success of the digital strategy that SEG founder and CEO John Sie and his management team began to deploy in 1994. By targeting its product line and pricing to make them more attractive to satellite distributors and cable operators launching digital cable service, SEG has benefited disproportionately in the growth of these two distribution platforms in the past several years. At the end of 2001, SEG customers subscribed to more than 114 million different service units, compared with 88 million at the end of 2000 and just 58 million in 1999. We expect this growth to continue into 2002. In addition, we hope to see early results from some of the new services that SEG is beginning to offer, such as subscription video on demand. In conjunction with the new technology being deployed by cable and satellite operators, this service will give subscribers access to the SEG movies on demand for a reasonable monthly subscription fee, rather than only at a scheduled time.

Discovery Communications, Inc. (DCI) continued its domestic and international expansion during 2001. At the end of the year, the company that John Hendricks founded in mid-1985 with just 156,000 subscribers, operated 33 networks in 33 languages and 155 countries. The DCI networks counted 670 million total subscriptions, making DCI by far the largest provider of television networks in the world. Despite one of the worst years in the advertising market in recent memory, DCI delivered revenue growth of more than five percent and nearly doubled operating cash flow to $375 million in 2001. What’s more, DCI turned in solid subscriber and primetime audience growth across its domestic networks. However, the company was not immune to the same sluggish advertising market that affected most media companies in 2001. This resulted in a slight decrease in domestic network advertising revenue in 2001. Nonetheless, the tremendous expansion in its newer domestic and international networks has permitted DCI to continue to grow despite the adverse domestic market conditions. We expect substantially all of DCI’s domestic and international networks to produce positive operating cash flow in 2002.

QVC continued to exceed expectations over the past year and expand its leading presence in the electronic retailing marketplace. With 2001 revenue growth of 11 percent to more than $3.9 billion and operating cash flow growth of 17 percent to $722 million, we are excited about future prospects at QVC. QVC is taking its promise of quality, value and convenience to the international market where its operations in the U.K. and Germany continue to show improvement. Closer to home, QVC recorded its highest one day sales in the company's history during the fourth quarter, with more than $80 million in sales in a 24-hour period.

In Japan, our 35 percent-owned distribution company, **Jupiter Telecommunications** (J-Com), and our 50 percent-owned programming company, **Jupiter Programming** (JPC), are good examples of why we think there are excellent investment opportunities in other parts of the world. Our attributed share of revenue from our businesses in Japan increased by 34 percent in 2001, and operating cash flow improved to almost breakeven for the year. This is the result of 40 and 26 percent increases in revenues at J-Com and JPC respectively. J-Com is expanding its footprint throughout Japan and leading the consolidation in the Japanese cable industry. At the end of 2001, J-Com served almost 1.4 million cable subscribers – an increase of more than 50 percent from year-end 2000 – as well as 166,000 telephone customers and 378,000 Internet customers. J-Com also boasts some of the highest average monthly revenue per customer in the world at almost $50 per month. We expect J-Com to show positive operating cash flow for the full year ending 2002, and we expect to continue to capitalize on consolidation opportunities in Japan. JPC growth was fueled by strong gains at its core group of networks, as well as by the rapid success of six networks that were launched in 2000. The success of these new networks in such a short time highlights a core strategy at Liberty Media – leveraging the relationship between distribution and content to the benefit of both. Virtually all of JPC's 12 networks have already achieved breakeven or positive operating cash flow.

CourtTV was one of the fastest-growing cable television networks in 2001, with more than 68 million subscribers at year end. CourtTV's revenues grew by more than 25 percent in 2001, and we expect the network to achieve better than 20 percent revenue growth in 2002 while delivering positive operating cash flow – a tremendous improvement over the past three years.

We also are pleased with the early results of **Game Show Network**, in which we acquired a 50 percent interest last year. At the end of 2001, Game Show Network's subscribers numbered more than 40 million, an increase of almost 50 percent over the end of 2000. New management has been very effective in raising awareness of the network, expanding distribution and improving viewership.

Significant Strategic Transactions

We completed or announced a number of very significant transactions in 2001. Each was unique in its purpose and circumstances, but they all met at least one of our three core objectives: to enter a new business, to increase scale in an existing business, or to exit a business.

In the fall of 1999, we purchased an 11 percent equity stake in UnitedGlobalCom (UGC), the largest operator of cable television systems outside of the U.S. We acquired this position because we sensed opportunities to expand the business and to use the large cable television business as a platform upon which we could create other related businesses. In January of 2002 we acquired additional interests in a restructured UGC in exchange for cash and debt securities of its principal subsidiary. We currently own approximately 74% of its outstanding equity.

The dramatic shift in the capital markets in late 2000 and throughout 2001 effectively prohibited developing telecommunications companies from raising the capital necessary to complete their development, and many of their original assumptions proved to be overly optimistic. In the subsequent collapse of the debt and equity markets, we perceived an opportunity to expand our European activities beyond our interests in UGC and Telewest Communications plc, a broadband services provider in the United Kingdom.

As a part of that effort, we attempted to secure 60 percent of the cable subscribers in the largest market in Europe by acquiring six of the nine regional cable television companies in Germany. We viewed this as an opportunity to own and control a large European cable television business, and use it as a gravitational center around which we could build and attach other businesses. However, while we recognized the opportunity, we were also aware of the risks. German consumers have a rich variety of television programming available to them at low cost, and the local telephone company has been quite aggressive in its marketing of high-speed Internet services. Thus, to leverage two of the largest potential revenue opportunities – additional levels of programming service and Internet – would be very challenging. What's more, we would not be able to offer these additional services without making a substantial capital commitment to upgrade the physical distribution network. In addition, the industry is structured in such a way that the company we were attempting to buy only had direct access to about one-third of the actual customer base. The remaining subscribers were served by intermediary companies to which our business would be a wholesaler.

Given these challenges and our other objectives, we determined at the outset that we would only be willing to proceed with the acquisition if we were permitted to do three things: acquire some of the intermediary businesses, change the nature of the business from a passive transporter of networks owned and marketed by others to a retailer of services to end customers, and invest in programming networks. Without this flexibility, we felt that the risks were too high given the size of the investment, and we believed that we would be better off pursuing other opportunities. In the end, the German anti-trust authorities turned down our proposed acquisition and the associated changes to the business model. We elected not to appeal this decision. While it could have been an excellent opportunity under the right conditions because it nicely complemented our objectives in European cable, the strategic fit didn't justify the potential risks.

In 2001 we completed the last of the transactions associated with the assembly of Liberty Livewire that were initiated in 2000. Livewire's mission is to become the global leader in providing technical and creative solutions to producers, owners and distributors of content. Livewire provides a scaled global platform of end-to-end traditional and digital media services for advertisers, studios, programming networks, and multi-channel video providers. We expect Livewire to be a leading contributor to the development of new digital media services and applications, which will serve the benefit of many of our affiliate companies as well as the broader media industry.

We also completed a transaction in 2001 in which we exchanged our 21% interest in Gemstar-TV Guide International for News Corporation shares. As a result of the transaction we now are one of the largest shareholders in News Corporation with an 18% interest. This transaction allowed us to diversify our risk and to enhance the liquidity of our holding.

In late 2001, we announced our agreement to exchange a portion of our interest in USA Networks Inc. and certain other assets for shares in Vivendi Universal as part of a larger transaction between USA and Vivendi. In the larger transaction, Vivendi will acquire USA's entertainment assets such as USA Network and the Sci Fi Channel in exchange for cash and securities convertible into the 40 percent stake in USA Networks held by Vivendi. In effect, Vivendi's holdings in USA will be redeemed for USA's entertainment assets. After the fact, we will own approximately the same 20 percent of the remaining company, USA Interactive, that we currently hold in USA Networks, and we will own approximately three percent of Vivendi.

We also completed a transaction in early 2001 in which Viacom acquired Black Entertainment Television (BET). We were a founding investor in BET in 1980. The transaction was an excellent opportunity to exit the business at a price that reflected the synergies that Viacom, with its MTV networks and other media assets, could create. As a result of the transaction, we received 15.2 million shares of Viacom.

In a similar transaction, in November we and our partners announced an agreement to sell Telemundo to General Electric's NBC for $2.2 billion. Together with Sony and other investors, we had acquired Telemundo in 1998 for $780 million. At the time we saw the tremendous growth in the size and attractiveness to advertisers of the Spanish-speaking market in the U.S. In addition, we owned cable and network businesses in Latin America that might prove complementary. However, as the television station ownership rules relaxed, it became clear that the business would be more valuable to a company that already owned television stations in major markets.

As in the case of BET, industry consolidation and scale economics created a situation in which the business was more valuable to the buyer than it was to us. We completed this transaction in April 2002, and we received more than $675 million of cash.

Active and Aggressive Financial Management

We were particularly active in the financial management arena in 2001. As we were anticipating a potential decline in public company stock prices, we took aggressive steps during the year to protect some of our public stock holdings. We used financial instruments to limit our downside risk in these holdings and to extract liquidity from non-strategic investments in a tax-efficient manner.

Specifically, we used two types of instruments to achieve these objectives: exchangeable debentures and equity collars. The exchangeable debentures give the holder the right to exchange the debentures, at any time prior to maturity, into a fixed number of shares of stock that we hold in another company. They can be advantageous because the exchange right permits a lower interest rate. In 2002 we issued a total of $1.4 billion of these securities, exchangeable into Motorola and Viacom shares. In addition, during 2000 we issued $1.8 billion of debentures exchangeable into Sprint PCS stock. In the aggregate, the amount of cash we raised from issuing these securities exceeded the public trading value of the underlying stocks held by Liberty by $1.3 billion at the end of 2001 and by $1.7 billion at March 31, 2002.

Equity collars are options with two components: a put and a call. We purchase a put right, giving us the right to require the counterparty to buy a given number of shares in a company from us on a specified date at a certain price. We simultaneously sell a call right on the same number of shares in the same company. Normally, the put strike price is set at a small discount and the call strike price is set at a premium to the current market price. In this way, we are protected if the stock price declines and we benefit if it increases. During 2001, we entered into equity collars of varying lengths with respect to some of our shares in a number of companies. Including the equity collars into which we entered in 1999 and 2000, the total minimum value of the covered shares, as measured by the number of shares times the price of the put, was $9.4 billion at the end of 2001 and $8.3 billion at March 31, 2002. That exceeded the public market value of those shares held by Liberty by $2.1 billion at the end of 2001 and by $3.7 billion at March 31, 2002.

The combined extra value created by the exchangeable debentures and equity collars was $3.4 billion, or approximately $1.25 per Liberty share outstanding at the end of 2001, and $5.4 billion, or more than $2 per Liberty share outstanding at March 31, 2002. This demonstrates the important role that financial management plays in our overall value creation strategy.

At the end of 2001, we had approximately $2.7 billion of corporate cash available to us and little in the way of ongoing capital expenditure, working capital or funding requirements. At the corporate level we owed approximately $3.1 billion under the exchangeable debentures described above. We also had outstanding another $2.5 billion in long-term public notes and debentures, and $1.1 billion in other debt instruments (some of which has been subsequently repaid). We believe that this debt level is modest given our cash on hand and the market value of our public equity securities, equity collars and private investments. Our substantial liquidity position is not an accident, but rather the result of careful planning and policy. In view of the uncertain economic climate, we think it's prudent to maintain substantial liquidity, positioning us to take advantage of opportunities as they arise.

In the fall of 2001, we announced that we would consider creating a tracking stock to reflect the performance of our expanding international cable television and programming business. We expect to present the proposal to create this new security for shareholder approval this summer. The new security has several uses. We would like to create a way for investors to participate in the performance of this business, as well as to have a security that we can use to make acquisitions in the business. Also, given that the foreign cable companies frequently carry higher amounts of debt than we do at the parent level, we would like to isolate the credit characteristics of those businesses from our other activities. The first step in the process is to seek shareholder approval for the structural changes and corporate charter amendments necessary to create the tracking stock. Assuming that our shareholders approve these steps, we will determine the best way to issue the new security at a future date.

A Favorable Long-Term Outlook

The market value of our company on any given day is heavily influenced by the general market sentiment for the sectors in which we operate. In the media businesses, that market sentiment is, at the moment, clouded by uncertainty with respect to the timing of a recovery in the market for television advertising. In telecommunications, high-profile collapses and fears about high debt leverage and capital spending requirements continue to suppress investor interest.

In the long-term the value of our business will depend on four things:

- The success of our operating companies;
- Our skill in defending ourselves against swings in investor attitude for our public companies;
- Our ability to maintain adequate liquidity to take advantage of opportunities; and
- Our discipline in distinguishing real opportunities to create long-term value from the chance simply to buy at prices that are lower than they were in the past.

In the past few months, we have pursued a number of acquisitions, most notably in European cable. We have a presence in that market and we believe that additional consolidation can create a more attractive business for us. Despite the apparent strategic opportunity and the fact that prices are much lower than they were two years ago, we abandoned several of those efforts because conditions weren't right. Either the operating environment was unsatisfactory or other buyers, usually financial players, put a higher value on the assets than we did. It is always disappointing to devote substantial resources to projects that don't come to fruition. Disappointment fades as new situations arise. Destruction of shareholder value, on the other hand, is permanent.

We remain as committed as ever to our history of opportunism and our strategy for value creation. Though the acquisition aspect of the strategy receives the most public attention, our operating businesses quietly become more profitable and more valuable every day. In the overall scheme of things, this persistent improvement will likely contribute more to our long-term value than any individual acquisition. This fact makes it much easier to be patient in uncertain times.

We'd like to thank you very much for your continued support of our efforts. We are all significant shareholders in the company and we join you in the thrill of a robust stock price as well as the pain of a decline in value. Our interests are directly aligned with yours, and you can be assured we will do our best to position Liberty Media Corporation to grow and prosper in the years to come.

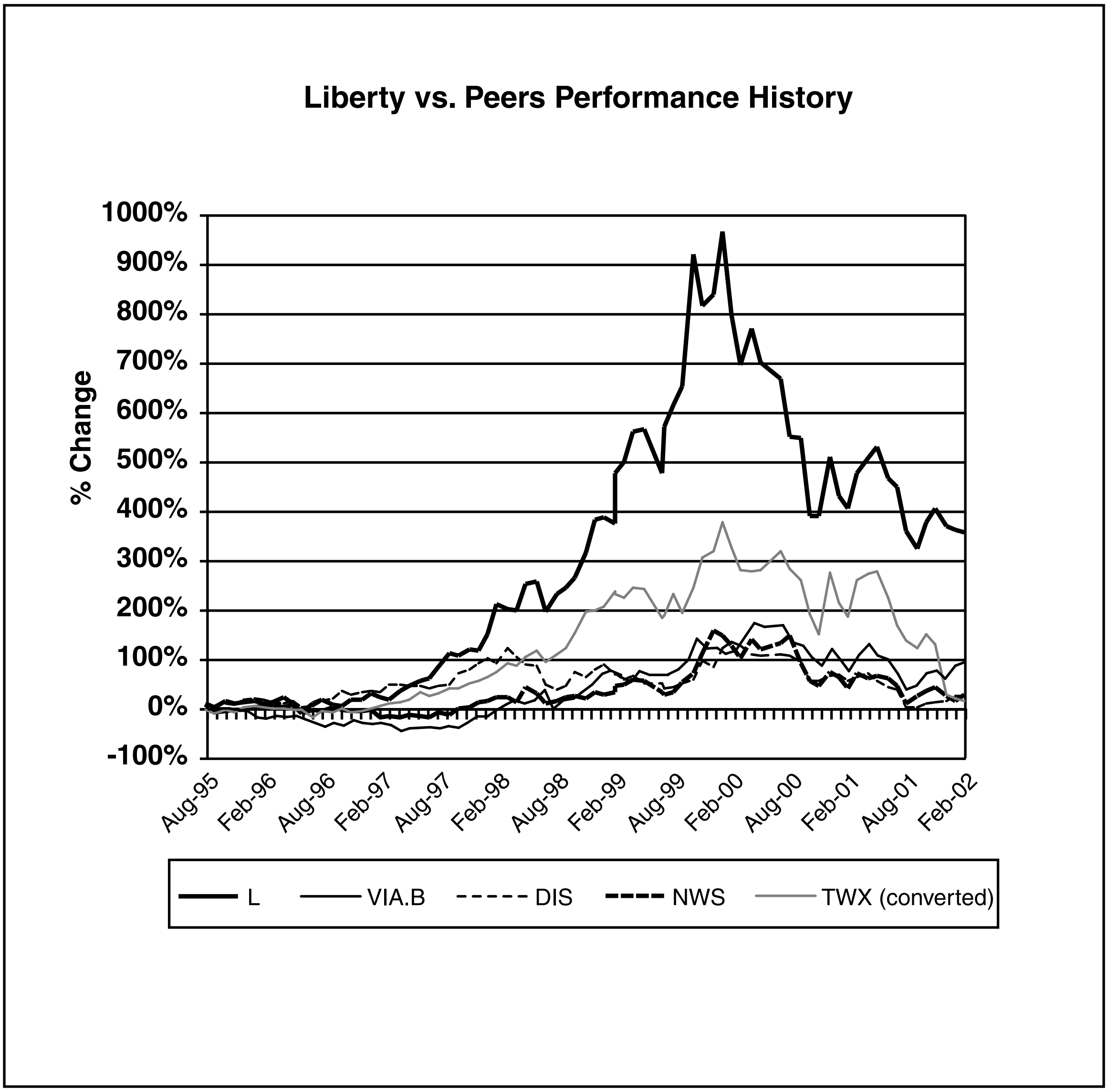
Very truly yours,

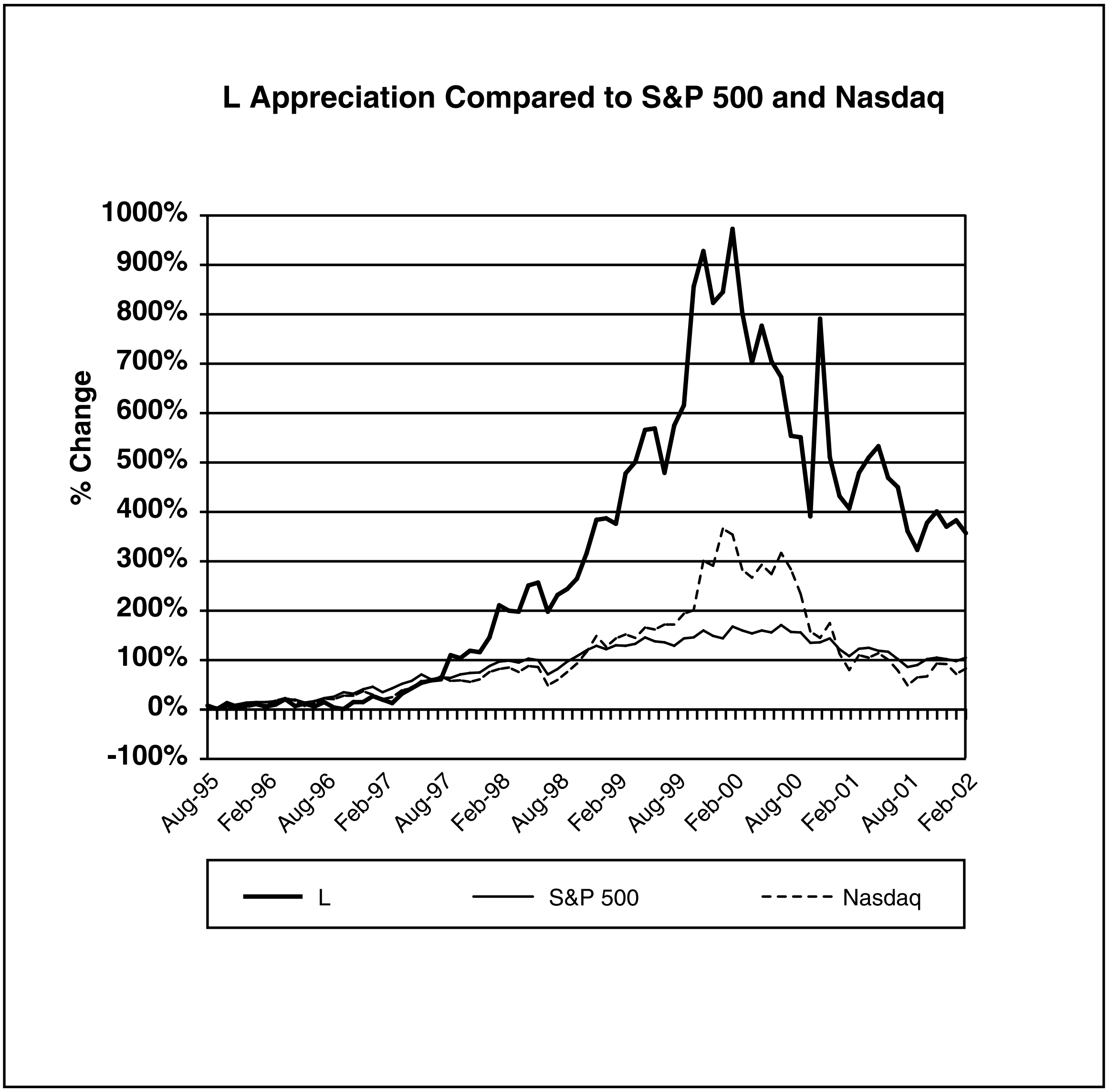
Robert R. Bennett
President and CEO

John C. Malone
Chairman of the Board

STOCK PERFORMANCE

On August 10, 2001, Liberty Media split off from AT&T Corp. and, effective January 2002, began trading under the new stock symbols L and LMC.B on the New York Stock Exchange. The following tables illustrate the performance of the Liberty Media Corporation Series A Common Stock since it was initially issued by TCI in August of 1995 in comparison to its peers, and in comparison to the S&P 500 and Nasdaq indices.





L Appreciation Compared to S&P 500 and Nasdaq
% Change
1000%
900%
800%
700%
600%
500%
400%
300%
200%
100%
0%
-100%
Aug-95
Feb-96
Aug-96
Feb-97
Aug-97
Feb-98
Aug-98
Feb-99
Aug-99
Feb-00
Aug-00
Feb-01
Aug-01
Feb-02
L
S&P 500
Nasdaq

COMPANY PROFILE

Liberty Media holds interests in a broad range of domestic and international video programming, communications, technology and Internet businesses. A complete listing of Liberty Media's domestic and international programming networks and businesses is included in the table below.

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

ENTITY	SUBSCRIBERS AT 12/31/01 (000's)	YEAR LAUNCHED	ATTRIBUTED OWNERSHIP AT 03/31/02
VIDEO PROGRAMMING/INTERACTIVE TELEVISION SERVICES			
AOL Time Warner Inc. (NYSE: AOL)(1)			4%
Corus Entertainment Inc.(2) (TSE: CJR.B; NYSE: CJR)			17%
Court TV	68,100	1991	50%
Crown Media Holdings, Inc. (Nasdaq: CRWN)			13%
Discovery Communications, Inc.			50%
Discovery Channel	85,587	1985	
The Learning Channel	82,703	1980	
Animal Planet	76,083	1996	
Travel Channel	60,943	1987	
Discovery Health Channel	28,638	1999	
Discovery Digital (aggregate units)(3)	54,208		
Discovery Civilization		1996	
Discovery Home & Leisure		1996	
Discovery Kids		1996	
Discovery Science		1996	
Discovery Wings		1998	
Discovery en Español		1998	
Animal Planet Asia	42,533	1998	25%
Animal Planet Europe	9,422	1998	
Animal Planet Japan(4)	1,168	2000	
Animal Planet Latin America	10,001	1998	25%
Animal Planet UK	6,950	1998	
Discovery Asia	45,642	1994	
Discovery Canada	7,055	1995	10%
Discovery India	23,405	1996	
Discovery Japan(4)	2,923	1996	
Discovery Europe	25,701	1989	
Discovery Turkey	1,035	1997	
Discovery Germany	2,194	1996	25%
Discovery Italy/Africa	2,216	1996	
Discovery Latin America	14,834	1996	

ENTITY	SUBSCRIBERS AT 12/31/01 (000's)	YEAR LAUNCHED	ATTRIBUTED OWNERSHIP AT 03/31/02
VIDEO PROGRAMMING/INTERACTIVE TELEVISION SERVICES (Cont.)			
Discovery Latin America Kids Network	11,602	1996	
Discovery Middle East	214	1997	
People & Arts (Latin America)	12,155	1995	25%
Discovery Home & Leisure (Europe)	7,376	1999	
Europe Showcase	23,458	1998	
Health Latin America	5,383	2000	
Health UK	5,360	2000	
Travel & Adventure (Latin America)	4,279	2000	
Discovery.com, Inc.	Online	1995	
DMX MUSIC, Inc.	9,021	1986	56%(5)
E! Entertainment Television	70,399	1990	10%
Style	17,158	1998	
Flextech Limited (UK)			25%
Bravo	7,605	1985	25%
Challenge TV	7,217	1993	25%
Living	7,698	1993	25%
SMG	N/A	1957	4%
Trouble	7,514	1984	25%
TV Travel Shop	10,332	1998	9%
UK Drama (UKTV)	6,605	1997	12%
UK Gold (UKTV)	8,829	1992	12%
UK Gold Classics (UKTV)	6,333	1999	12%
UK Horizons (UKTV)	7,721	1997	12%
UK Style (UKTV)	7,799	1997	12%
UK Play (UKTV)	7,828	1998	12%
Fox Family Worldwide, Inc.			(6)
Game Show Network	40,859		50%(5)
International Channel	11,806	1990	90%
Canale ñ(3)	45	1998	
Jupiter Programming Co., Ltd. (Japan)			50%
Animal Planet	1,168	2000	17%
Cable Soft Network	3,931	1989	50%
Nikkei CNBC	N/A	1997	10%
Discovery Japan	2,923	1996	25%
Golf Network	3,136	1996	45%
Jidaigeki	1,818	2000	5%
JSky Sports	2,901	1998	29%
Kids Station	4,160	2000	8%
La La Media	1,152	2000	50%
Nihon-Eiga	674	2000	5%
Premium Anime Channel (AT-X)	41	2000	7%
Shop Channel	6,506	1996	35%
MacNeil/Lehrer Productions	N/A	N/A	67%

ENTITY	SUBSCRIBERS AT 12/31/01 (000's)	YEAR LAUNCHED	ATTRIBUTED OWNERSHIP AT 03/31/02
VIDEO PROGRAMMING/INTERACTIVE TELEVISION SERVICES (Cont.)			
MultiThématiques, S.A.			27%(7)
Canal Jimmy (France)	2,632	1991	
Canal Jimmy (Italy)	1,007	1997	
Ciné Cinémas (Benelux/Scandanavia)	38	2000	
Ciné Cinémas (France)	1,651	1991	
Ciné Cinémas (Italy)	160	1997	
Ciné Classics (France)	1,453	1991	
Ciné Classics (Spain)	231	1995	14%
Ciné Classics (Italy)	160	1997	
Eurochannel (Brazil)	904	2000	
Planète (Germany)	2,266	1997	
Planète (Italy)	1,010	1997	
Planète (Poland)	2,033	1996	
Seasons (France)	142	1996	
Seasons (Italy)	53	1997	
Seasons (Poland)	453	2000	
Seasons (Spain)	37		
The News Corporation Limited(9) (NYSE: NWS.A; ASX: NCPDP)			18%(8)
Pramer S.C.A. (Argentina)			100%
America Sports	2,423	1990	
Canal á	4,162	1996	
Cineplaneta	2,028	1997	
elgourmet.com	4,508	2000	
Film & Arts	6,348	2000	
GEMS International	3,450	N/A	
Magic Kids	4,156	1995	
P&E	1,687	1996	
Plus Satelital	3,902	1988	
Rio de la Plata	76	2000	
The Premium Movie Partnership (Australia)	909	1995	20%
QVC, Inc.			43%
QVC	71,889	1986	
QVC-The Shopping Channel (UK)	9,138	1993	34%
QVC-Germany	23,283	1996	
QVC-Japan	2,894	2001	
iQVC	Online	1995	
Starz Encore Group LLC			100%
Encore	18,798	1991	
MOVIEplex	6,575	1995	
Thematic Multiplex (aggregate units)(3)	76,009		
Love Stories		1994	
Westerns		1994	

ENTITY	SUBSCRIBERS AT 12/31/01 (000's)	YEAR LAUNCHED	ATTRIBUTED OWNERSHIP AT 03/31/02
VIDEO PROGRAMMING/INTERACTIVE TELEVISION SERVICES (Cont.)			
Mystery		1994	
Action		1994	
True Stories		1994	
WAM! America's Kidz Network		1994	
STARZ!	12,987	1994	
STARZ! Theater(3)		1996	
BLACK STARZ!(3)		1997	
STARZ! Family(3)		1999	
STARZ! Cinema(3)		1999	
Telemundo Communications Group	N/A	N/A	35%(10)
Torneos y Competencias, S.A.	N/A	N/A	54%
USA Networks, Inc. (Nasdaq: USAI)(11)			20%(7)(12)
Viacom Inc. (NYSE: VIA)(13)			<1%

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 03/31/02
VIDEO PROGRAMMING/INTERACTIVE TELEVISION SERVICES		
ACTV, Inc. (Nasdaq: IATV)	Producer of tools for interactive programming for television and Internet platforms.	19%(14)
Liberty Livewire Corporation (Nasdaq: LWIRA)	Provides a wide range of traditional audio and video post-production, transmission, library services, and audio/video distribution services via satellite and fiber to worldwide clients in the feature film, television and advertising industries. Also provides interactive television services under the brand name "HyperTv with Livewire."	87%(15)
priceline.com, Incorporated (Nasdaq: PCLN)	E-commerce service allowing consumers to make offers on products and services.	4%
TECHNOLOGY AND MANUFACTURING		
Arris Group, Inc. (Nasdaq: ARRS)	Manufacturer of products for hybrid fiber/coaxial broadband networks.	9%
Motorola, Inc. (NYSE: MOT)	Provider of integrated communications solutions and embedded electronic solutions.	4%(16)
TruePosition, Inc.	Provider of wireless location technology and services.	89%

ENTITY	HOMES IN SERVICE AREA/PASSED 12/31/01 [17] (000)	BASIC SUBS 12/31/01[18] (000)	TELEPHONE LINES 12/31/01 (000)	INTERNET SUBS 12/31/01	ATTRIBUTED OWNERSHIP AT 03/31/02
CABLE AND TELEPHONY					
Cablevisión S.A. (Argentina)	5,281/3,516	1,438	N/A	50	50%
Chorus Communication Limited (Ireland) (formerly Princes Holdings Limited)	650/582	243	N/A	N/A	50%
Digital Latin America LLC	N/A	94	N/A	N/A	43%
IDT Corporation (Nasdaq: IDTC)					17%
Jupiter Telecommunications Co.,Ltd. (Japan)	8,080/6,690	1,366	166	378	36%
Liberty Cablevision of Puerto Rico, Inc.	442/300	125	N/A	N/A	100%
Metrópolis-Intercom, S.A. (Chile)	1,600/1,121	268	N/A	13	50%
Omnipoint Communications, Inc.					4%
Sprint PCS Group (NYSE: PCS)					21%[19]
Telewest Communications plc (UK) (LN: TWT) (Nasdaq: TWSTY)	6,074/4,914	1,343	2,206	388	25%
The Wireless Group (LN: TWG)					30%
UnitedGlobalCom, Inc. (Nasdaq: UCOMA)					78%[20]

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 03/31/02
	SATELLITE COMMUNICATIONS SERVICES	
Liberty Satellite & Technology, Inc. (OTC: LSTTA/LSTTB)	Foresees strategic opportunities worldwide in the distribution of internet data and other content via satellite and related businesses.	85%(21)
Aerocast.com, Inc.	Developer of terrestrial and satellite network to distribute streaming media to businesses and consumers.	39%
Ascent Network Services	Provides uplink services to the NBC television network.	85%
Astrolink International LLC	Astrolink is building a global communications system for the delivery of next-generation broadband service in over 40 countries.	27%
Hughes Electronics Corporation (NYSE: GMH)	A subsidiary of General Motors Corporation providing digital television entertainment (DirecTV), satellite services and satellite-based private business networks.	<1%
On Command Corporation (Nasdaq: ONCO)	Provider of in-room interactive entertainment, Internet access, Business information and guest services for the lodging industry.	54%
Sky Latin America	Satellite delivered television platform currently servicing Mexico, Brazil, Chile, Columbia and Argentina.	9%
Wildblue Communications, Inc.	Will build a ka-band satellite network that will focus on providing broadband services to homes and small offices in North America and Latin America.	13%
XM Satellite Radio Holdings, Inc. (Nasdaq: XMSR)	Will transmit up to 100 national audio channels of music, news, talk, sports and children's programming from two satellites directly to vehicle, home and portable radios.	<1%
	OTHER	
Cendant Corporation (NYSE: CD)	Franchisor of hotels, rental car agencies, tax preparation services & real estate brokerage offices. Provides access to insurance, travel, shopping, auto and other services primarily through buying clubs. Provides vacation time share services, mortgage services and employee relocation. Operates in over 100 countries.	3%
Net2Phone Inc. (Nasdaq: NTOP)	Provider of voice and enhanced services over IP networks to consumers, businesses and carriers worldwide.	

COMPANY	CLASS	SHARES AT 03/31/02
PUBLIC STOCK INVESTMENTS		
ACTV, Inc. (Nasdaq: IATV)	Common Warrants	8,805,000(5) 2,500,000(14)
Alloy Online, Inc. (Nasdaq: ALOY)	Common	2,922,294(5)
AOL Time Warner Inc. (NYSE: AOL)	Series LMCN-V Common	171,185,826(22)
Arris Group, Inc. (Nasdaq: ARRS)	Common Options	6,827,000 854,342(22)(23)
Cendant Corporation (NYSE: CD)	Common	26,356,979
Corus Entertainment Inc. (TSE: CJR.B; NYSE: CJR)	Class B Non-Voting	7,125,000
Crown Media Holdings, Inc. (Nasdaq: CRWN)	Class A Common	9,416,746
IDT Corporation (Nasdaq: IDTC)	Class B Common	10,260,303
Liberty Livewire Corporation (Nasdaq: LWIRA)	Class A Common Class B Common	45,600(15) 35,272,649(15)
Liberty Satellite & Technology, Inc. (OTC: LSTTA/LSTTB)	Class A Common Class B Common	603,595 36,578,594(22)(24)
Lightspan, Inc. (Nasdaq: LSPN)	Common Warrants	4,059,302(5) 11,773(25)
Motorola, Inc. (NYSE: MOT)	Common Warrants	71,296,650 18,419,550(16)
The News Corporation Limited (NYSE: NWS.A)(ASX: NCPDP)	Preferred Limited Voting ADRs	231,932,575(8)
Open TV, Inc. (Nasdaq: OPTV)	Common	2,252,252(5)
priceline.com, Incorporated (Nasdaq: PCLN)	Common	8,458,333
Primedia (NYSE: PRM)	Common	8,000,000
Sprint PCS Group (NYSE: PCS)	Series 2 Common Warrants Convertible Preferred	192,043,102 12,582,628(22)(26) 8,021,302(22)(27)

COMPANY	CLASS	SHARES AT 03/31/02
PUBLIC STOCK INVESTMENTS (Cont.)		
Telewest Communications plc (LN: TWT)	Ordinary Shares	722,205,225[22]
	Convertible Limited Voting Shares	22,185,093[22]
The Wireless Group plc (LN: TWG)	Ordinary Shares	21,146,374
	B Ordinary	1,166,000[22]
USA Networks, Inc. (Nasdaq: USAI)	Common	102,233,553[7][12]
	B Common	51,199,996
UnitedGlobalCom, Inc. (Nasdaq: UCOMA)	Class A Common	3,493,570[20]
	Class C Common	303,123,542[20]
Viacom Inc. (NYSE: VIA)	Class B Common	15,182,499
XM Satellite Radio, Inc. (Nasdaq: XMSR)	Class A Common	1,000,000

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(1) AOL Time Warner has interests in Internet Services, including AOL, Netscape and CompuServe; filmed entertainment and television production including Warner Brothers and New Line Cinema; recorded music and music publishing; book and magazine publishing; cable television systems; cable television programming and television broadcasting, including: CNN, Cartoon Network, Headline News, TNT, Turner Classic Movies, WTBS Superstation, HBO, Cinemax, and the WB Television Network.

(2) Corus is one of Canada's leading media companies focused on children's programming and music. Its principal assets consist of 49 radio stations, specialty television networks, Pay TV, conventional television assets, and Nelvana Limited, an international producer and distributor of children's programming and products.

(3) Digital services.

(4) Liberty's attributed ownership interest in this entity is listed under Jupiter Programming Co., Ltd. of which Liberty Media International, Inc. owns 50%.

(5) On March 14, 2002, Liberty Media completed its planned acquisition of Liberty Digital, Inc. Each Liberty Digital stockholder received 0.25 shares of Liberty Media Corporation Series A common stock for each share of Liberty Digital, Inc. Series A common stock held. As a result of the merger, Liberty Media owns 100% of the equity of Liberty Digital.

(6) Liberty's interest consists of shares of 30-year 9% preferred stock which have a stated aggregate value of $345 million and are not convertible into common stock.

(7) On December 17, 2001, Vivendi Universal announced that it will acquire full control of the entertainment assets of USA Networks. Liberty will receive American Depository Shares representing over 37 million Vivendi Universal ordinary shares in exchange for a portion of its stake in USA Networks and its 27% stake in the European cable programming company, MultiThématiques. Following the transaction, Liberty will own approximately 3% of Vivendi Universal and 20% of USA Networks, which will change its name to USA Interactive.

(8) In December 2001, Liberty Media and News Corp. consummated the second phase of the Gemstar-TV Guide International, Inc. transaction whereby Liberty Media contributed its remaining Gemstar ownership interest to News Corp. in exchange for 28.8 million News Corp. ADSs.

(9) News Corp. has operations in the United States, Canada, the United Kingdom, Australia, Latin America and the Pacific Basin. These include U.S. cable networks, FX, Fox News Channel and the Fox regional and national sports networks. News Corp.'s businesses also include Fox Broadcasting Company, 20th Century Fox, satellite platforms BSkyB in the United Kingdom, SKYPerfecTV! in Japan and STAR in Asia, and the publication of newspapers, magazines and books.

(10) On April 12, 2002 Liberty consummated the agreement to sell its ownership interest in Telemundo to NBC in exchange for approximately $675 million in cash.

(11) USA Networks, Inc. is focused on the convergence of entertainment, information and direct selling. It is organized into three distinct but interrelated units which include the following assets: USA Entertainment's USA Network, SCI FI Channel, TRIO, NWI, Studios USA, USA Films, USA Broadcasting and USA Interactive Entertainment; USA Electronic Retailing's HSN, HSN International, HSN Interactive; and USA Information and Services' Ticketmaster, Ticketmaster Online-Citysearch, Inc. (Nasdaq: TMCS), Hotel Reservations Network (Nasdaq: ROOM), Electronic Commerce Solutions, Styleclick (Nasdaq: IBUY) and Precision Response Corporation.

(12) Liberty owns direct and indirect interests in various USA Networks, Inc., USANi LLC and Home Shopping Network, Inc. securities which may be converted or exchanged for USA Networks common stock. Assuming the conversion or exchange of such securities, the conversion or exchange of certain securities owned by Universal Studios, Inc. and certain of its affiliates for USA Networks common stock, Liberty would own approximately 20% of USA Networks.

(13) Viacom is a diversified entertainment company with operations in broadcasting, cable television, programming, entertainment, radio, outdoor advertising, video, publishing and online businesses. Viacom's well known brands include CBS, MTV, Nickelodeon, VH1, BET, Paramount Pictures, Infinity Broadcasting, UPN, TNN, CMT, Showtime, Blockbuster and Simon & Schuster.

(14) Liberty's ownership of ACTV is approximately 19% assuming the exercise of 2,500,000 warrants which are exercisable at $15.00/share and expire 3/29/04.

(15) Liberty owns 91% of the equity and 99% of the voting power of Liberty Livewire on a fully diluted basis.

(16) In addition to its common stock holdings in Motorola, Liberty owns warrants to purchase approximately 18.4 million additional shares of Motorola common stock at $8.26 per share, all of which are vested. The 4% ownership interest assumes exercise of all warrants.

(17) Homes in Service Area: The number of homes to which the relevant operating company is permitted by law to offer its services. Not all service areas are granted exclusively to the respective operating company.

(18) Homes Passed: Homes that can be connected to a cable distribution system without further extension of the distribution network.

(19) Less than 1% of voting power. Liberty holds securities of Sprint which are exercisable for or convertible into Sprint PCS Group Stock.

(20) On January 30, 2002, Liberty Media completed a transaction with UnitedGlobalCom, Inc. in which Liberty contributed $200 million in cash, approximately $891.7 million in current principal amount of convertible notes issued by United's subsidiaries, Belmarken Holding B.A. and United PanEurope Communications and approximately $1,435.3 million and Euro 263.1 million aggregate principal amount at maturity of UPC's publicly traded bonds. In exchange, Liberty was issued approximately 281.3 million Class C common shares of United. These shares, when combined with Liberty's prior holdings, give Liberty an approximate 78% economic ownership in United assuming the conversion of Class C common into Class A common.

(21) On April 1, 2002, Liberty contributed to Liberty Satellite 100% of the equity of Ascent Entertainment Group, Inc. and the 89.4% of Liberty Satellite, LLC that was previously held by Liberty. Also announced was a reverse 1-for-10 stock split. After giving effect to the stock split, Liberty received 34 million shares of Liberty Satellite's Series B Common Stock. Liberty holds preferred stock of Liberty Satellite which gives Liberty approximately 98% of the voting power and approximately 85% economic ownership of Liberty Satellite.

(22) Common equivalent shares.

(23) Options with an average exercise price of $6.86.

(24) Includes $150 million of convertible preferred stock, convertible at $88.406 per share into 1,696,717 shares of Liberty Satellite Class B common stock. In addition to its common stock holdings in Liberty Satellite, Liberty owns $150 million face amount of cumulative preferred stock.

(25) Liberty owns warrants exercisable as follows: 1,534 shares at $5/share expiring 6/30/04 and 10,239 shares at $3.76 /share expiring 5/9/02.

(26) Warrants exercisable at $12.01; expire 11/13/03.

(27) $123,314,991 face value convertible at $15.38 into shares of Series 2 PCS Stock.

Market for Registrant's Common Equity and Related Stockholder Matters.

From March 9, 1999 to August 10, 2001, we were a wholly-owned subsidiary of AT&T Corp. Effective August 10, 2001, AT&T effected our split-off pursuant to which our capital stock was recapitalized, and each outstanding share of AT&T Class A Liberty Media Group tracking stock was redeemed for one share of Liberty Series A common stock and each outstanding share of AT&T Class B Liberty Media Group tracking stock was redeemed for one share of Liberty Series B common stock. As a result of this split-off, our common stock began trading on the New York Stock Exchange on August 10, 2001 under the symbols LMC.A and LMC.B. Effective January 2, 2002, we changed the ticker symbol for our Series A common stock to ''L.'' The following table sets forth the range of high and low sales prices of shares of our Series A and Series B common stock for the period from August 10, 2001 to December 31, 2001; and for AT&T Class A and Class B Liberty Media Group tracking stock for the year ended December 31, 2000 and for the period from January 1, 2001 to August 9, 2001.

	Series A		Series B	
	High	**Low**	**High**	**Low**
2001				
First quarter	$17.25	11.88	18.69	14.20
Second quarter	18.04	11.50	18.82	12.50
Third quarter	17.85	9.75	18.35	12.00
Fourth quarter	14.46	11.17	15.50	12.30
2000				
First quarter	30.72	24.44	36.56	27.00
Second quarter	29.94	19.19	32.69	22.13
Third quarter	26.56	17.44	32.63	18.75
Fourth quarter	19.25	10.75	20.63	12.75

As of February 28, 2002, there were approximately 6,600 and 400 record holders of our Series A common stock and Series B common stock, respectively (which amounts do not include the number of shareholders whose shares are held of record by banks, brokerage houses or other institutions, but include each such institution as one shareholder).

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

Selected Financial Data.

The following tables present selected historical information relating to our financial condition and results of operations for the past five years. The following data should be read in conjunction with our consolidated financial statements. We were a wholly-owned subsidiary of Tele-Communications, Inc. (“TCI”) from August 1994 to March 9, 1999. On March 9, 1999, AT&T Corp. acquired TCI in a merger transaction (the “AT&T Merger”). For financial reporting purposes, the AT&T Merger is deemed to have occurred on March 1, 1999. In connection with the merger, our assets and liabilities were adjusted to their respective fair values pursuant to the purchase method of accounting. For periods prior to March 1, 1999, our assets and liabilities and the related consolidated results of operations are referred to below as “Old Liberty,” and for periods subsequent to February 28, 1999, our assets and liabilities and the related consolidated results of operations are referred to as “New Liberty.” In connection with the merger, TCI effected an internal restructuring as a result of which certain assets and approximately $5.5 billion in cash were contributed to us.

	New Liberty			Old Liberty	
	December 31,			December 31,	
	2001	2000	1999	1998	1997
	amounts in millions				
Summary Balance Sheet Data:					
Investment in affiliates	$10,076	20,464	15,922	3,079	2,359
Investments in available-for-sale securities and other cost investments	$23,544	19,035	28,593	10,539	3,971
Total assets	$48,539	54,268	58,658	15,783	7,735
Debt, including current portion and call option obligations	$ 7,227	6,363	3,277	2,096	785
Stockholder’s equity	$30,123	34,109	38,408	8,820	4,707

	New Liberty			Old Liberty		
	Year ended December 31, 2001	Year ended December 31, 2000	Ten months ended December 31, 1999	Two months ended February 28, 1999	Years ended December 31, 1998	Years ended December 31, 1997
	amounts in millions					
Summary Statement of Operations Data:						
Revenue	$ 2,059	1,526	729	235	1,359	1,225
Operating income (loss)	$(1,127)	436	(2,214)	(158)	(431)	(260)
Interest expense	$ (525)	(399)	(135)	(26)	(104)	(40)
Share of losses of affiliates, net	$(4,906)	(3,485)	(904)	(66)	(1,002)	(785)
Gains (losses) on dispositions, net	$ (310)	7,340	4	14	2,449	406
Net earnings (loss)	$(6,203)	1,485	(2,021)	(70)	622	(470)
Pro forma basic and diluted net earnings (loss) per common share(1)	$ (2.40)	.57	(.78)	(.03)	.24	(.18)

(1) The pro forma basic and diluted net earnings (loss) per common share for periods prior to our split off from AT&T is based upon 2,588 million shares of Liberty Series A and Series B common stock issued upon consummation of the split off.

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

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

From March 9, 1999 through August 9, 2001, AT&T Corp. (''AT&T'') owned 100% of our outstanding common stock. During such time, the AT&T Class A Liberty Media Group common stock and the AT&T Class B Liberty Media Group common stock (together, the AT&T Liberty Media Group tracking stock) were tracking stocks of AT&T designed to reflect the economic performance of the businesses and assets of AT&T attributed to the Liberty Media Group. We were included in the Liberty Media Group.

On May 7, 2001, AT&T contributed to us assets that were attributed to the Liberty Media Group but not previously owned by us (the ''Contributed Assets''). These assets included (i) preferred stock and common stock interests in a subsidiary of IDT Corporation, a multinational telecommunications services provider and (ii) an approximate 8% indirect common equity interest in Liberty Digital, Inc. (''Liberty Digital''). Subsequent to these contributions, our businesses and assets and those of our subsidiaries constituted all of the businesses and assets of the Liberty Media Group. The contributions have been accounted for in a manner similar to a pooling of interests and, accordingly, our financial statements for periods prior to the contributions have been restated to include the financial position and results of operations of the Contributed Assets.

Effective August 10, 2001, AT&T effected our split-off pursuant to which our common stock was recapitalized, and each outstanding share of AT&T Class A Liberty Media Group tracking stock was redeemed for one share of Liberty Series A common stock and each outstanding share of AT&T Class B Liberty Media Group tracking stock was redeemed for one share of Liberty Series B common stock (the ''Split Off Transaction''). Subsequent to the Split Off Transaction, we are no longer a subsidiary of AT&T and no shares of AT&T Liberty Media Group tracking stock remain outstanding. The Split Off Transaction has been accounted for at historical cost.

Our domestic subsidiaries generally operate or hold interests in businesses which provide programming services including production, acquisition and distribution through all available formats and media of branded entertainment, educational and informational programming and software. In addition, certain of our subsidiaries hold interests in technology and Internet businesses, as well as interests in businesses engaged in wireless telephony, electronic retailing, direct marketing and advertising sales relating to programming services, infomercials and transaction processing. We also have significant interests in foreign affiliates, which operate in cable television, programming and satellite distribution.

Our most significant consolidated subsidiaries at December 31, 2001, were Starz Encore Group LLC (''Starz Encore Group''), Liberty Livewire Corporation (''Liberty Livewire'') and On Command Corporation (''On Command''). These businesses are either wholly or majority owned and are controlled by us and, accordingly, the results of operations of these businesses are included in our consolidated results for the periods in which they are wholly or majority owned and controlled.

A significant portion of our operations are conducted through entities in which we do not have a controlling financial interest but do have the ability to exercise significant influence over the operating and financial policies of the investee. In these instances we use the equity method of accounting. Accordingly, our share of the results of operations of these businesses is reflected in our consolidated results as earnings or losses of affiliates. Included in our investments in affiliates at December 31, 2001 were USA Networks, Inc. (''USAI''), Discovery Communications, Inc. (''Discovery''), QVC, Inc. (''QVC''), UnitedGlobalCom, Inc. (''UnitedGlobalCom'') and Telewest Communications plc (''Telewest'').

We also hold ownership interests in companies in which we do not have significant influence. The most significant of these include AOL Time Warner Inc. (''AOL Time Warner''), Sprint Corporation (''Sprint''), The News Corporation Limited (''News Corp.'') and Motorola, Inc. (''Motorola'') These investments are classified as available-for-sale securities and are carried at fair value. Realized gains and losses on disposition are determined on an average cost basis.

AT&T's acquisition of Tele-Communications, Inc. (''TCI''), our former parent, by merger (the ''AT&T Merger'') on March 9, 1999 was accounted for using the purchase method. Accordingly, at the time of the merger, our assets and liabilities were adjusted to their respective fair values resulting in a new cost basis. For financial reporting purposes the AT&T Merger is deemed to have occurred on March 1, 1999. Accordingly, for periods prior to March 1, 1999, our assets and liabilities and the related consolidated financial statements are sometimes referred to herein as ''Old Liberty,'' and for periods subsequent to February 28, 1999, our assets and liabilities and the related consolidated financial statements are sometimes referred to herein as ''New Liberty.'' ''Liberty'' refers to both New Liberty and Old Liberty.

Summary Of Operations

Starz Encore Group provides premium programming distributed by cable, direct-to-home satellite and other distribution media throughout the United States. Liberty Livewire provides sound, video and ancillary post production and distribution services to the motion picture and television industries in the United States, Europe, Asia and Mexico. On Command provides in-room, on-demand video entertainment and information services to hotels, motels and resorts primarily in the United States. To enhance the reader's understanding, separate financial data has been provided in the table below, for the periods in which they were consolidated, for Starz Encore Group, Liberty Livewire and On Command due to the significance of those operations. The table sets forth, for the periods indicated, certain financial information and the percentage relationship that certain items bear to revenue, and includes purchase accounting adjustments related to On Command that have not been ''pushed down'' to On Command's publicly available financial statements. Included in the other category are our other consolidated subsidiaries and corporate expenses. Some of our significant other consolidated subsidiaries include Liberty Digital, Inc., Pramer S.C.A. and Liberty Cablevision of Puerto Rico. Liberty Digital is principally engaged in programming, distributing and marketing digital and analog music services to homes and businesses. Pramer is an owner and distributor of video programming services primarily in Argentina. Liberty Cablevision of Puerto Rico provides cable television and other broadband services in Puerto Rico. The results of TV Guide are included for the two months ended February 28, 1999, after which time we began accounting for this investment using the equity method of accounting. We hold significant equity investments, the results of which are not a component of operating income, but are discussed below under ''Investments in Affiliates Accounted for Under the Equity Method.'' Other items of significance are also discussed separately below.

In order to provide a meaningful basis for comparing the years ended December 31, 2001, 2000 and 1999, the operating results of New Liberty for the ten months ended December 31, 1999 have been combined with the operating results of Old Liberty for the two months ended February 28, 1999, for purposes of the following table and discussion. Depreciation, amortization and certain other line items included in the operating results presented below are not comparable between periods as a result of the effects of purchase accounting adjustments related to the AT&T Merger. The combining of predecessor and successor accounting periods is not permitted by generally accepted accounting principles.

	Combined Liberty					
	Year ended December 31, 2001	% of revenue	Year ended December 31, 2000	$ of revenue	Year ended December 31, 1999	% of revenue
	dollar amounts in millions					
Starz Encore Group						
Revenue	$ 863	100 %	$ 733	100 %	$ 640	100 %
Operating, selling, general and administrative	(550)	(64)	(498)	(68)	(475)	(74)
Stock compensation	(88)	(10)	(163)	(22)	(286)	(45)
Depreciation and amortization	(157)	(18)	(157)	(21)	(149)	(23)
Operating income (loss)	$ 68	8 %	$ (85)	(11)%	$ (270)	(42)%
Liberty Livewire						
Revenue	$ 593	100 %	$ 295	100 %	$ —	—
Operating, selling, general and administrative	(504)	(85)	(251)	(85)	—	—
Stock compensation	(3)	(1)	42	14	—	—
Depreciation and amortization	(136)	(23)	(55)	(19)	—	—
Impairment of assets	(313)	(54)	—	—	—	—
Operating income (loss)	$(363)	(63)%	$ 31	10 %	$ —	—
On Command						
Revenue	$ 239	100 %	$ 200	100 %	$ —	—
Operating, selling, general and administrative	(195)	(82)	(151)	(76)	—	—
Depreciation and amortization	(141)	(59)	(108)	(54)	—	—
Operating loss	$ (97)	(41)%	$ (59)	(30)%	$ —	—
Other						
Revenue	$ 364	(a)	$ 298	(a)	$ 324	(a)
Operating, selling, general and administrative	(433)		(286)		(309)	
Stock compensation	(41)		1,071		(1,682)	
Depreciation and amortization	(550)		(534)		(435)	
Impairment of assets	(75)		—		—	
Operating income (loss)	$(735)		$ 549		$(2,102)	

(a) Not meaningful.

Certain of our consolidated subsidiaries and equity affiliates (the ''Programming Affiliates'') are dependent on the entertainment industry for entertainment and for educational and informational programming. In addition, a significant portion of certain of the Programming Affiliates' revenue is generated by the sale of advertising on their networks. A prolonged downturn in the economy could have a negative impact on the revenue and operating income of the Programming Affiliates. Such an event could reduce the development of new television and motion picture programming, thereby adversely impacting the Programming Affiliates' supply of service offerings. In addition, a soft economy could reduce consumer disposable income and consumer demand for the products and services of the Programming Affiliates.

We have one consolidated subsidiary (Pramer) and two equity affiliates (Torneos y Competencias S.C.A. and Cablevisión S.A.) located in Argentina. While Argentina has been in a recession for the past four years, the Argentine government has historically maintained an exchange rate of one Argentine peso to one U.S. dollar (the "peg rate"). Due to worsening economic and political conditions in late 2001, the Argentine government eliminated the peg rate effective January 11, 2002. The value of the Argentine peso dropped significantly on the day the peg rate was eliminated and has dropped further since that date. In addition, the Argentine government placed restrictions on the payment of obligations to foreign creditors. While we cannot predict what future impact these economic events will have on our Argentine businesses, we note that during 2001 these businesses experienced significant adverse effects as customers began extending payments and lenders began tightening credit criteria. See additional discussion below.

Consolidated Subsidiaries

Starz Encore Group. The majority of Starz Encore Group's revenue is derived from the delivery of movies to subscribers under affiliation agreements with cable operators and satellite direct-to-home distributors. In 1997, Starz Encore Group entered into a 25-year affiliation agreement with TCI. TCI cable systems were subsequently acquired by AT&T in the AT&T Merger and operate under the name AT&T Broadband. Under this affiliation agreement with AT&T Broadband, AT&T Broadband pays fixed monthly payments in exchange for unlimited access to all of the existing Encore and STARZ! services. The payment from AT&T Broadband can be adjusted, in certain instances, if AT&T acquires or disposes of cable systems or if Starz Encore Group's programming costs increase above certain specified levels. As a result of AT&T's acquisition of MediaOne Group, Inc. on June 15, 2000, the contracted payment amount increased by approximately 20%. After adjusting for the elimination of the former MediaOne contract, the net payment amount from the combined AT&T companies increased by approximately 10%. Substantially all of Starz Encore Group's other affiliation agreements generally provide for payments based on the number of subscribers that receive Starz Encore Group's services.

By letter dated May 29, 2001, AT&T Broadband has disputed the enforceability of the excess programming costs pass through provisions of the affiliation agreement and questioned whether the affiliation agreement, as a whole, is "voidable." In addition, AT&T Broadband raised certain issues concerning the interpretation of the contractual requirements associated with the treatment of acquisitions and dispositions. Starz Encore Group believes the position expressed by AT&T Broadband to be without merit. On July 10, 2001, Starz Encore Group initiated a lawsuit against AT&T Broadband and Satellite Services, Inc., a subsidiary of AT&T Broadband that is also a party to the affiliation agreement, for breach of contract and collection of damages and costs.

On October 19, 2001, Starz Encore Group entered into a standstill and tolling agreement whereby the parties agreed to move the court to stay the lawsuit until August 31, 2002 to permit the parties an opportunity to resolve their dispute. This agreement provides that either party may unilaterally petition the court to lift the stay after April 30, 2002 and proceed with the litigation. The court granted the stay on October 30, 2001. In conjunction with this agreement, we and AT&T Broadband entered into various agreements whereby Starz Encore Group will indirectly receive payment for AT&T Broadband's proportionate share of the programming costs pass through for 2001.

Revenue increased 18% and 15% in 2001 and 2000, respectively, as compared to the corresponding prior year. Such increases are due to increases in subscription units from all forms of distribution. At December 31, 2001, Starz Encore Group had 114.1 million subscription units, as compared to 87.9 million units at December 31, 2000 and 58.3 million at December 31, 1999. Such increases in subscription units were due primarily to an increase in subscribers to Starz Encore Group's thematic multiplex service, which increased from 27.6 million subscribers at December 31, 1999 to 52.5 million subscribers at December 31, 2000 and 76.0 million subscribers at December 31, 2001. Over the two-year period Encore, Movieplex, and Starz! subscribers increased (decreased) 37%, (7%), and 29%, respectively. At December 31, 2001, AT&T Broadband customers represented 16% of Starz Encore Group's total subscription units; and other cable, DBS, and other distribution represented 41%, 42% and 1%, respectively. AT&T Broadband customers generated $259 million or 30% of Starz Encore Group's revenue for the year ended December 31, 2001.

Operating, selling, general and administrative expenses increased 10% and 5% during 2001 and 2000, respectively, as compared to the corresponding prior year, primarily due to an increase in programming expenses. Programming expenses increased due to an increase in programming license fees resulting from increased use of more expensive first-run films from certain movie studios. Higher marketing expenses and higher salaries and related payroll expenses also contributed to the increase in operating, selling, general and administrative expenses in 2001.

Starz Encore Group has granted phantom stock appreciation rights to certain of its officers. Compensation relating to the phantom stock appreciation rights has been recorded based upon the fair value of Starz Encore Group as determined by a third-party appraisal. The amount of expense associated with the phantom stock appreciation rights is generally based on the vesting of such rights and the change in the fair value of Starz Encore Group.

As a result of the implementation of new accounting standards and the resulting elimination of goodwill amortization, we expect Starz Encore Group to generate improved operating income during 2002, as compared to 2001.

Liberty Livewire. In April 2000, we acquired all of the outstanding common stock of Four Media Company in exchange for AT&T Class A Liberty Media Group common stock and cash. In June 2000, we acquired a controlling interest in The Todd-AO Corporation in exchange for AT&T Class A Liberty Media Group common stock. Immediately following the closing of such transaction, we contributed 100% of the capital stock of Four Media Company to Todd-AO in exchange for additional Todd-AO common stock. Following these transactions, Todd-AO changed its name to Liberty Livewire. In July 2000, we purchased all of the assets relating to the post production, content and sound editorial businesses of SounDelux Entertainment Group, and contributed such assets to Liberty Livewire for additional Liberty Livewire stock. Following these transactions, we owned approximately 88% of the equity and controlled approximately 99% of the voting power of Liberty Livewire, and as a result, began to consolidate the operations of Liberty Livewire during the quarter ended June 30, 2000. Liberty Livewire is dependent on the television and movie production industries and the commercial advertising market for a substantial portion of its revenue.

During 2001, Liberty Livewire consummated several smaller acquisitions for an aggregate purchase price of $140 million. Increases in Liberty Livewire's revenue and expenses that are included in our consolidated results of operations for the year ended December 31, 2001 are due to (i) the inclusion of Liberty Livewire for a full year in 2001, as compared to six months in 2000 and (ii) the acquisitions made by Liberty Livewire in 2001.

On a pro forma basis and assuming that all of the 2000 and 2001 acquisitions had been consummated on January 1, 2000, Liberty Livewire's revenue decreased $33 million or 5% in 2001, as compared to 2000; and expenses decreased $26 million or 5% in 2001. The decrease in revenue is due to weakness in the economy in general, and specifically in the entertainment and advertising industries in 2001. This weakness was magnified by the events of September 11, 2001. We believe that this pro forma discussion provides information that is useful in analyzing Liberty Livewire's business. However, pro forma operating results should be considered in addition to, and not as a substitute for, actual results.

As a result of the weakness in the economy and in the entertainment and advertising industries discussed above, Liberty Livewire did not meet its 2001 operating objectives and has reduced its 2002 expectations.

Accordingly, Liberty Livewire assessed the recoverability of its property and equipment and intangible assets and determined that an impairment adjustment was necessary. In addition, in the fourth quarter, Liberty Livewire made the decision to consolidate certain of its operations and close certain facilities. In connection with these initiatives, Liberty Livewire recorded a restructuring charge related to lease cancellation fees and an additional impairment charge related to its property and equipment. All of the foregoing charges are included in impairment of long-lived assets in our statement of operations.

On Command. On March 28, 2000, we announced that we had completed our cash tender offer for the outstanding common stock of Ascent Entertainment Group, Inc. Approximately 85% of the outstanding shares of common stock of Ascent were tendered in the offer. On June 8, 2000, we acquired the remaining 15% of Ascent. On Command is a majority owned subsidiary of Ascent. On Command's principal business is providing pay-per-view entertainment and information services to hotels, motels and resorts. Upon completion of the tender offer, we consolidated the operations of On Command.

The increase in On Command's revenue and expenses is due primarily to having 12 months of operations in our 2001 consolidated results, as compared to nine months of operations in our 2000 consolidated results. However, for the full year ended December 31, 2001, On Command experienced a 10% decrease in revenue and a 5% decrease in operating, selling, general and administrative expenses. The decrease in revenue is due primarily to a decrease in hotel occupancy rates in 2001. The lower hotel occupancy rates are attributable to a decrease in travel due to the events of September 11, 2001, as well as the downturn in the U.S. economy. Cost control measures instituted in the second half of 2001 by On Command resulted in the decrease in expenses. As a percentage of revenue, operating, selling, general and administrative expenses increased from 72% in 2000 to 76% in 2001 because certain of On Command's content fees and other room services costs do not vary with revenue or occupancy. Although, no assurance can be given, On Command anticipates that its cost control measures will result in improved margins in 2002.

Other. Included in this information are the results of our other consolidated subsidiaries and corporate expenses.

Revenue increased 22% and decreased 8% in 2001 and 2000, respectively, as compared to the corresponding prior year. The 2001 increase is attributable primarily to an increase in revenue at Liberty Digital due to the acquisition of AEI Network, Inc. in 2001. The 2000 decrease is primarily due to the deconsolidation of TV Guide on March 1, 1999, which accounted for $97 million of the decrease. The effect of the deconsolidation of TV Guide was partially offset by a $12 million increase in revenue at Pramer, a $20 million increase in revenue at Liberty Digital and a $12 million increase in revenue at other international subsidiaries. Ascent Network Services, Inc. which was acquired during March 2000 as part of the Ascent transaction, also contributed $17 million in additional revenue.

Operating, selling, general and administrative expenses increased 51% and decreased 7% in 2001 and 2000, respectively, as compared to the corresponding prior year. The increase in 2001 is due primarily to increases in expenses at Liberty Digital of $54 million and True Position of $30 million. In addition, we incurred expenses related to our split off from AT&T which aggregated $11 million, and we incurred higher legal and consulting fees in 2001 related to our transaction with UnitedGlobalCom and our unsuccessful acquisition of six German cable systems. The 2000 decrease in expenses is primarily due to the deconsolidation of TV Guide, which accounted for $76 million of the decrease. The effect of the TV Guide deconsolidation was offset by start up expenses of $26 million at True Position, Inc. which was acquired on January 14, 2000 as part of the Associated Group transaction, increased expenses of $9 million at each of Pramer and Liberty Digital, and $11 million of expenses associated with the acquisition of Ascent Network Services.

Depreciation and amortization were comparable over the 2001 and 2000 periods. Depreciation and amortization increased $99 million to $534 million in 2000 from $435 million in 1999. This increase was a result of the effects of purchase accounting adjustments related to the AT&T Merger and other acquisitions.

The amount of expense associated with stock compensation is generally based on the vesting of the related stock options and stock appreciation rights and the market price of the underlying common stock. The expense reflected in the table is based on the market price of the underlying common stock as of the date of the financial statements and is subject to future adjustment based on market price fluctuations, vesting percentages and, ultimately, on the final determination of market value when the rights are exercised.

Other Income and Expense

Interest expense was $525 million, $399 million, $135 million and $26 million for the years ended December 31, 2001 and 2000, the ten month period ending December 31, 1999 and the two month period ending February 28, 1999, respectively. The increase in 2001 is due to the issuance of our exchangeable debentures in 2000 and 2001, as well as the issuance of notes payable to UnitedGlobalCom in 2001. We repaid these notes payable in late 2001 and early 2002. The increase in interest expense during 2000 was a result of increased borrowings during the second half of 1999 and the first quarter of 2000.

Dividend and interest income was $272 million, $301 million, $242 million and $10 million for the years ended December 31, 2001 and 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively. The decrease in 2001 is primarily attributable to lower interest rates on our invested cash balances, combined with the elimination of Time Warner dividends subsequent to the merger of Time Warner and AOL. These decreases were partially offset by interest earned on certain debt securities that we purchased in the second and third quarter of 2001. The majority of these debt securities were contributed to UnitedGlobalCom in January 2002. The increase in dividend and interest income during the year ended December 31, 2000 primarily represents interest earned on our cash and cash equivalents, increased dividends from investments in News Corp. and Motorola and interest earned on cash balances at Ascent and Liberty Satellite and Technology, Inc. (''LSAT'').

During 2001 and 2000, we determined that certain of our cost investments experienced other-than temporary (''nontemporary'') declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based primarily on recent quoted market prices. These adjustments are reflected as nontemporary declines in fair value of investments in the consolidated statements of operations. The following table identifies such adjustments attributable to each of the individual investments as follows:

	Year ended December 31,	
Investments	**2001**	**2000**
	amounts in millions	
AOL Time Warner	$2,052	—
News Corp.	915	—
Viacom, Inc. ('Viacom')	201	—
United Pan-Europe Communications, N.V	195	—
Antec Corporation	127	—
Motorola	232	1,276
Primedia	—	103
Others	379	84
	$4,101	1,463

We consider a number of factors in our determination of fair value including (i) the financial condition, operating performance and near term prospects of the investee; (ii) the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; (iii) analysts' ratings and estimates of 12 month share price targets for the investee; (iv) the length of time that the fair value of the investment is below our carrying value; and (v) our intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. In situations where the fair value of an investment is not evident due to lack of a public market price or other factors, we use our best estimates and assumptions to arrive at the estimated fair value of such investment. As our assessment of the fair value of our investments and any resulting impairment losses requires a high degree of judgment and includes significant estimates and assumptions, actual results could differ materially from our estimates and assumptions. Accordingly, we believe this policy is one of our critical accounting policies.

Aggregate gains (losses) from dispositions during the years ended December 31, 2001 and 2000, the ten month period ended December 31, 1999 and the two month period ended February 28, 1999 were $(310) million, $7,340 million, $4 million and $14 million, respectively. The following table provides information regarding significant components of gains (losses) from dispositions for the years ended December 31, 2001 and 2000.

Transaction	Year ended December 31, 2001	Year ended December 31, 2000
	amounts in millions	
Merger of Viacom and BET Holdings II, Inc.	$ 559	—
Merger of AOL and Time Warner	253	—
Exchange of our Gemstar common stock for News Corp. ADSs	(965)	—
Merger of Motorola and General Instruments	—	2,233
Merger of Telewest and Flextech	—	649
Merger of TV Guide and Gemstar	—	4,391
Other	(157)	67
Total	$(310)	7,340

In all of the above exchange transactions, the gains or losses were calculated based upon the difference between the carrying value of the assets relinquished, as determined on an average cost basis, compared to the fair value of the assets received.

We recognized a gain on issuance of equity by affiliates and subsidiaries of $372 million during the two months ended February 28, 1999, in connection with the acquisition by United Video Satellite Group of the TV Guide properties. Such gain is included in other, net in the accompanying consolidated statement of operations. Subsequent to the AT&T Merger, changes in our proportionate share of the underlying equity of one of our subsidiaries or equity method investees which result from the issuance of additional equity securities of such subsidiary or investee are recognized as increases or decreases in our consolidated statements of stockholders' equity.

Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("Statement 133"), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be 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.

We use various derivative instruments including equity collars, put spread collars, bond swaps and foreign exchange contracts to manage fair value and cash flow risk associated with many of our investments, some of our variable rate debt and forecasted transactions to be denominated in foreign currencies. Each of these derivative instruments is executed with a counterparty, generally well known major financial institutions. 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:

- Execute our derivative instruments with several different counterparties, and
- Execute 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 were to reach certain levels, generally a rating that is below Standard & Poor's rating of A- or Moody's rating of A3.

Due to the importance of these derivative instruments to our risk management strategy, we actively monitor the creditworthiness of each of these counterparties. Based on our analysis, we 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, 2001**
	amounts in millions
Counterparty A	$ 752
Counterparty B	619
Counterparty C	279
Counterparty D	181
Other	232
	$2,063

The adoption of Statement 133 on January 1, 2001, resulted in a cumulative increase in net earnings of $545 million (after tax expense of $356 million) and an increase in other comprehensive loss of $87 million. The increase in net earnings was mostly attributable to separately recording the fair value of our embedded call option obligations associated with our senior exchangeable debentures. The increase in other comprehensive loss relates primarily to changes in the fair value of our warrants and options to purchase certain available-for-sale securities.

Realized and unrealized gains on financial instruments for the year ended December 31, 2001 included a $167 million unrealized gain related to call option obligations, a $616 million unrealized net loss for changes in the fair value of derivative instruments related to available-for-sale securities and other derivatives not designated as hedging instruments, and a $275 million unrealized net gain for changes in the time value of options for fair value hedges. During the year ended December 31, 2001, we received cash proceeds of $329 million as a result of unwinding certain of our equity collars. Pursuant to Statement 133, the proceeds received less the offsetting impact of hedge accounting on the underlying securities resulted in $162 million of realized and unrealized gains on financial instruments in our consolidated statement of operations for the year ended December 31, 2001.

We use the Black-Scholes model to estimate the fair value of our derivative instruments. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. We select a volatility rate at the inception of the derivative instrument based on the historical volatility of the underlying security and on the term of the derivative instrument. The volatility assumption is generally not changed during the term of the derivative instrument unless there is an indication that the historical volatility is no longer appropriate. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of our derivative instruments may differ materially from these estimates. Accordingly, we consider accounting for our derivative instruments to be one of our critical accounting policies.

Prior to the adoption of Statement 133, the carrying amount of the senior exchangeable debentures was adjusted based on the fair value of the underlying security. Increases or decreases in the value of the underlying security above the principal amount of the senior exchangeable debentures were recorded as unrealized gains or losses on financial instruments in the consolidated statements of operations. If the value of the underlying security decreased below the principal amount of the senior exchangeable debentures there was no effect on the principal amount of the debentures.

Upon adoption of Statement 133, the call option feature of the exchangeable debentures is reported separately in the consolidated balance sheet at fair value. Changes in the fair value of the call option obligations subsequent to January 1, 2001 are recognized as unrealized gains (losses) on financial instruments in our consolidated statements of operations. During the year ended December 31, 2001, we recorded unrealized gains of $167 million related to the call option obligations.

Investments in Affiliates Accounted for Under the Equity Method

Our share of losses of affiliates was $4,906 million, $3,485 million, $904 million and $66 million during the years ended December 31, 2001 and 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively. A summary of our share of losses of affiliates, including nontemporary declines in value and excess cost amortization, is included below:

	New Liberty				Old Liberty
	Percentage Ownership at December 31, 2001	Year ended December 31, 2001	Year ended December 31, 2000	Ten months ended December 31, 1999	Two months ended February 28, 1999
		amounts in millions			
Discovery	50%	$ (293)	(293)	(269)	(8)
QVC	42%	36	(12)	(11)	13
USAI and related investments	20%	35	(36)	(20)	10
UnitedGlobalCom	20%	(751)	(211)	23	—
Telewest	25%	(2,538)	(441)	(222)	(38)
Jupiter Telecommunications Co., Ltd. (“Jupiter”)	35%	(90)	(114)	(54)	(7)
Cablevisión S.A. (“Cablevisión”)	50%	(476)	(49)	(28)	(3)
ASTROLINK International LLC (“Astrolink”)	32%	(417)	(8)	—	—
Teligent, Inc. (“Teligent”)	N/A	(85)	(1,269)	—	—
Gemstar	N/A	(133)	(254)	—	—
Other	Various	(194)	(798)	(323)	(33)
		$(4,906)	(3,485)	(904)	(66)

At December 31, 2001, the aggregate carrying amount of our investments in affiliates exceeded our proportionate share of our affiliates' net assets by $7,766 million. This excess basis is being amortized over estimated useful lives of up to 20 years. Such amortization was $798 million, $1,058 million, $463 million and $9 million for the years ended December 31, 2001 and 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively. Such excess basis amortization is included in our share of losses of affiliates. Also included in share of losses for the years ended December 31, 2001 and 2000, are adjustments for nontemporary declines in value aggregating $2,396 million and $1,324 million, respectively. We expect to continue to record shares of losses in affiliates for the foreseeable future.

Discovery. Our share of Discovery's net loss was $293 million, $293 million, $269 million, and $8 million for the years ended December 31, 2001 and 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively. Our share of losses for the years ended December 31, 2001 and

2000 and the ten months ended December 31, 1999, included $188 million, $187 million and $155 million, respectively, in excess basis amortization. Exclusive of the excess basis amortization, our share of losses of Discovery was $105 million, $106 million and $122 million for the years ended December 31, 2001, 2000 and 1999, respectively. The reduction in Discovery's 2000 net loss was the net effect of lower operating expenses as Discovery cut back on its online initiatives partially offset by increased interest expense.

QVC. Our share of QVC's net earnings (loss) was $36 million, $(12) million, $(11) million and $13 million for the years ended December 31, 2001 and 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively, including excess basis amortization of $110 million, $110 million and $92 million, respectively. Excluding the effect of excess basis amortization, our share of QVC's earnings was $146 million, $98 million and $94 million in 2001, 2000 and 1999, respectively. The increase in QVC's net income in 2001 and 2000 principally resulted from increased revenue and operating margins at QVC's domestic operations.

USA Networks, Inc. Our share of USA Networks, Inc.'s net earnings (loss) was $35 million, $(36) million, $(20) million and $10 million for the years ended December 31, 2001 and 2000, the ten month period ended December 31, 1999 and the two month period ended February 28, 1999, respectively. Our share of losses for the years ended December 31, 2001 and 2000 and the ten months ended December 31, 1999, included $64 million, $64 million and $53 million, respectively, in excess basis amortization. Exclusive of the excess basis amortization, our share of earnings of USA Networks was $99 million, $28 million and $43 million for the years ended December 31, 2001, 2000 and 1999, respectively. Such increase in 2001 is due to USA Networks' increased operating income and gains from dispositions of assets.

UnitedGlobalCom. Our share of UnitedGlobalCom's net earnings (loss) was $(751) million, $(211) million and $23 million for the years ended December 31, 2001 and 2000 and for the ten months ended December 31, 1999, respectively. Our share of UnitedGlobalCom's operations included $51 million, $46 million and $6 million in excess basis amortization for the years ended December 31, 2001 and 2000 and the ten months ended December 31, 1999, respectively. Exclusive of the excess basis amortization, our share of earnings (losses) of UnitedGlobalCom was $(700) million, $(165) million and $29 million for the years ended December 31, 2001, 2000 and 1999, respectively. The increased loss in 2001 is due to charges recorded by UnitedGlobalCom for impairment of long-lived assets, which aggregated $1,426 million. In addition, UnitedGlobalCom incurred higher depreciation charges and interest expense in 2001, and recognized impairment losses on certain of its investments. Our recorded share of earnings in 1999 was due to gains that UnitedGlobalCom recorded during the fourth quarter of 1999 resulting from sales of investments in affiliates. Such gains recorded by UnitedGlobalCom in 1999 were non-recurring.

Telewest. Our share of Telewest's net losses was $2,538 million, $441 million, $222 million and $38 million for the years ended December 31, 2001 and 2000, the ten month period ended December 31, 1999 and the two month period ended February 28, 1999, respectively. Our share of losses for the years ended December 31, 2001 and 2000 and the ten month period ended December 31, 1999 includes $109 million, $164 million and $73 million, respectively, in excess basis amortization. During the year ended December 31, 2001, we determined that our investment in Telewest experienced a nontemporary decline in value. As a result, the carrying value of Telewest was adjusted to its estimated fair value, and we recorded an impairment charge of $1,801 million. Such charge is included in share of losses of affiliates. Excluding the effects of excess basis amortization and the nontemporary decline in value adjustment, our share of Telewest's losses were $628 million, $277 million and $187 million in 2001, 2000 and 1999, respectively. Telewest's net loss increased in 2001 primarily due to a charge of $1,112 million related to the impairment of Telewest's long-lived assets recorded in the fourth quarter.

Cablevisión. Cablevisión provides cable television and high speed data services in Argentina. The Argentine government has historically maintained an exchange rate of one Argentine peso to one U.S. dollar (the "peg rate"). Due to deteriorating economic and political conditions in Argentina in late 2001, the Argentine government eliminated the peg rate effective January 11, 2002. The value of the Argentine peso dropped significantly on the day the peg rate was eliminated and has dropped further since that date. In addition, the Argentine government placed restrictions on the payment of obligations to foreign creditors. As a result of the devaluation of the Argentine peso, Cablevisión recorded foreign currency translation losses of $393 million in the fourth quarter of 2001. At December 31, 2001, we determined that our investment in Cablevisión had experienced a nontemporary decline in value, and accordingly, recorded an impairment charge of $195 million. Such charge is included in shares of losses of affiliates. Our share of losses in 2001, when combined with foreign currency translation losses recorded in other comprehensive loss at December 31, 2001, reduced the carrying value of our investment to zero as of December 31, 2001. Included in accumulated other comprehensive earnings at December 31, 2001, is $257 million of unrealized foreign currency translation losses related to our investment in Cablevisión.

Astrolink. Astrolink, a developmental stage entity, originally intended to build a global telecom network using Ka-band geostationary satellites to provide broadband data communications services. Astrolink's original business plan required significant additional financing over the next several years. During the fourth quarter of 2001, two of the members of Astrolink informed Astrolink that they do not intend to provide any of Astrolink's required financing. In light of this decision, Astrolink is considering several alternatives with respect to its proposed business plan, including, but not limited to, seeking alternative funding sources, scaling back their proposed business plan, and liquidating the venture entirely. There can be no assurance that Astrolink will be able to obtain the necessary financing on acceptable terms, or that it will be able to fulfill the business plan as originally proposed, or at all.

During the second quarter of 2001, we determined that our investment in Astrolink experienced a nontemporary decline in value. Accordingly, the carrying amount of such investment was adjusted to its then estimated fair value resulting in a recognized loss of $155 million. Such loss is included in share of losses of affiliates. Based on a fourth quarter 2001 assessment of Astrolink's remaining sources of liquidity and Astrolink's inability to obtain financing for its business plan, we concluded that the carrying value of our investment in Astrolink should be further reduced to reflect a fair value that assumes the liquidation of Astrolink. Accordingly, we wrote-off all of our remaining investment in Astrolink during the fourth quarter of 2001. The aggregate amount required to reduce our investment in Astrolink to zero was $250 million. Including such fourth quarter amount, we recorded losses and charges relating to our investment in Astrolink aggregating $417 million during the year ended December 31, 2001.

Teligent. In January 2000, we acquired a 40% equity interest in Teligent, a full-service facilities based communications company through our acquisition of Associated Group, Inc. During the year ended December 31, 2000, we determined that our investment in Teligent experienced a nontemporary decline in value. As a result, the carrying amount of this investment was adjusted to its estimated fair value resulting in a charge of $839 million. The balance of our share of loss results from recording our 40% share of their net loss for the year 2000. This impairment charge is included in share of losses of affiliates. In April 2001, we exchanged our investment in Teligent for shares of IDT Investments, Inc., a subsidiary of IDT Corporation. As the fair value of the consideration received in the exchange approximated the carrying value of our investment in Teligent, no gain or loss was recognized on the transaction.

Gemstar. On July 12, 2000, TV Guide and Gemstar completed a merger whereby Gemstar acquired TV Guide. As a result of this transaction, 133 million shares of TV Guide held by us were exchanged for 87.5 million shares of Gemstar common stock. Following the merger, we owned approximately 21% of Gemstar. Our share of Gemstar's net loss was $254 million from the date of acquisition through December 31, 2000 and included excess basis amortization of $199 million.

During 2001, we exchanged all of our Gemstar common stock for American Depositary Shares of News Corp. We recorded share of losses of $133 million prior to such exchange.

Liquidity and Capital Resources

Although our sources of funds include our available cash balances, net cash from operating activities, dividend and interest receipts, and proceeds from asset sales, we are primarily dependent upon our financing activities to generate sufficient cash resources to meet our future cash requirements and planned commitments. Our borrowings of debt aggregated $2,667 million, $4,597 million, $3,187 million and $155 million for the years ended December 31, 2001 and 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999. Due to covenant restrictions in the bank credit facilities of our subsidiaries, we are generally not entitled to the cash resources or cash generated by operations of our subsidiaries and business affiliates.

In January 2001, we received net cash proceeds of $588 million (after underwriter fees of $12 million) from the issuance of our 3½% senior exchangeable debentures due 2031. These debentures are exchangeable, at the option of the holder, for the value of 36.8189 shares of Motorola stock. We may pay such value in cash, with a number of shares of Motorola stock or a combination of cash and stock, as determined in the debentures.

In March 2001, we received net cash proceeds of $801 million (after underwriter fees of $17 million) from the issuance of our 3¼% senior exchangeable debentures due 2031. These debentures are exchangeable, at the option of the holder, for the value of 18.5666 shares of Viacom stock. We may pay such value in cash, with a number of shares of Viacom stock or a combination of cash and stock, as determined in the debentures.

In December 2001, we issued $237.8 million of 7¾% Senior Notes due 2009 for cash proceeds of $238.4 million. We used such cash proceeds to repay a portion of our notes payable to UnitedGlobalCom.

Prior to the Split Off Transaction, we were entitled to the benefit of all of the net operating loss carryforwards available to the entities included in TCI's consolidated income tax return as of the date of the AT&T merger. In addition, under the tax sharing agreement with AT&T, we received a cash payment from AT&T in periods when we generated taxable losses and those taxable losses were utilized by AT&T to reduce the consolidated income tax liability. Subsequent to the Split Off Transaction, we are no longer entitled to such cash payments.

In connection with the Split Off Transaction, we have also been deconsolidated from AT&T for federal income tax purposes. As a result, AT&T was required to pay us an amount equal to 35% of the amount of the net operating loss carryforward reflected in TCI's final federal income tax return that has not been used as an offset to our obligations under the AT&T Tax Sharing Agreement and that has been, or is reasonably expected to be, utilized by AT&T. The $803 million payment was received by us prior to the Split Off Transaction and has been reflected as an increase to additional paid-in-capital in the accompanying consolidated statement of stockholders' equity. In addition, certain deferred intercompany gains will be includible in AT&T's taxable income as a result of the Split Off Transaction, and AT&T will be entitled to reimbursement from us for the resulting tax liability of approximately $115 million. Such tax liability has been accrued as of December 31, 2001 and has been reflected as a reduction in additional paid-in-capital in the accompanying consolidated statement of stockholders' equity.

AT&T, as the successor to TCI, is the subject of an Internal Revenue Service (''IRS'') audit for the 1993-1995 tax years. The IRS has notified AT&T and us that it is considering proposing income adjustments and assessing certain penalties in connection with TCI's 1994 tax return. The IRS's position could result in recognition of up to approximately $305 million of additional income, resulting in as much as $107 million of additional tax liability, plus interest. In addition, the IRS may assert certain penalties. AT&T and we do not agree with the IRS's proposed adjustments and penalties, and AT&T and we intend to vigorously defend our position. Pursuant to the AT&T Tax Sharing Agreement, we may be obligated to reimburse AT&T for any tax that is ultimately assessed as a result of this audit. We are currently unable to estimate a range of any such reimbursement, but we believe that any such reimbursement would not be material to our financial position.

In connection with the private letter ruling received by AT&T with respect to the tax consequences of the Split Off Transaction, we represented to the Internal Revenue Service that, within one year following the Split Off Transaction, we will issue, subject to market and business conditions, at least $250 million to $500 million of equity for cash or other assets, and, within two years following the Split Off Transaction, we will issue at least $500 million to $1 billion of equity (including any equity issued during the first year) for cash or other assets. During the period from August 10, 2001 to December 31, 2001, we did not issue any common stock.

Our primary uses of cash in recent years have been investments in and advances to affiliates and acquisitions of consolidated subsidiaries. In this regard, our investments in and advances to cost and equity method affiliates aggregated $2,579 million, $3,359 million, $2,596 million, and $51 million for the years ended December 31, 2001 and 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively. Our cash paid for acquisitions aggregated $113 million, $735 million and $109 million for the years ended December 31, 2001 and 2000 and the ten months ended December 31, 1999, respectively. In addition, we had debt repayments of $1,048 million, $2,156 million, $2,211 million, and $145 million during the years ended December 31, 2001 and 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively.

We anticipate that we will continue to fund our existing investees as they develop and expand their businesses, and that such investments and advances to affiliates will aggregate $1.0 to $1.5 billion in 2002. Although we may invest additional amounts in new or existing ventures in 2002, we are unable to quantify such investments at this time. In addition, we have $1,143 million of debt that is required to be repaid or refinanced in 2002. We intend to fund such investing and financing activities with a combination of available cash and short term investments, borrowings under existing credit facilities, monetization of existing marketable securities, proceeds from the sale of assets, and the issuance of debt and equity securities.

At December 31, 2001, we and our consolidated subsidiaries had bank credit facilities which provided for borrowings of up to $2,202 million. Borrowings under these facilities of $1,985 million were outstanding at December 31, 2001. Certain assets of our consolidated subsidiaries serve as collateral for borrowings under these bank credit facilities. Also, these bank credit facilities contain provisions which limit additional indebtedness, sale of assets, liens, guarantees, and distributions by the borrowers.

Based on currently available information and expected future transactions, we expect to receive approximately $180 million in dividend and interest income during the year ended December 31, 2002. Based on current debt levels and current interest rates, we expect to make interest payments of approximately $400 million during the year ended December 31, 2002.

Various partnerships and other affiliates of ours accounted for using the equity method finance a substantial portion of their acquisitions and capital expenditures through borrowings under their own credit facilities and net cash provided by their operating activities. Notwithstanding the foregoing, certain of our affiliates may require additional capital to finance their operating or investing activities. In addition, we are party to stockholder and partnership agreements that provide for possible capital calls on stockholders and partners. In the event our affiliates require additional financing and we fail to meet a capital call, or other commitment to provide capital or loans to a particular company, such failure may have adverse consequences to us. These consequences may include, among others, the dilution of our equity interest in that company, the forfeiture of our right to vote or exercise other rights, the right of the other stockholders or partners to force us to sell our interest at less than fair value, the forced dissolution of the company to which we have made the commitment or, in some instances, a breach of contract action for damages against us. Our ability to meet capital calls or other capital or loan commitments is subject to our ability to access cash.

Pursuant to a proposed final judgment agreed to by TCI, AT&T and the United States Department of Justice on December 30, 1998, we transferred all of our beneficially owned securities of Sprint PCS to a trustee prior to the AT&T merger. The Final Judgment, which was entered by the United States District Court for the District of Columbia on August 23, 1999, requires the Trustee, on or before May 23, 2002, to dispose of a portion of the Sprint PCS Group common stock held by the trust sufficient to cause us to beneficially own no more than 10% of the outstanding Sprint PCS Group common stock-Series 1 on a fully diluted basis on such date. On or before May 23, 2004, the trustee must divest the remainder of the Sprint securities beneficially owned by us. At our request, the Department of Justice has joined us and AT&T in a joint motion to terminate the Final Judgment which was filed in the District Court in February 2002. Under the terms of the Final Judgement, the obligation of the trustee to dispose of the first tranche of shares by May 23, 2002 will be stayed while the District Court considers the joint motion. We are also seeking the approval of the Federal Communications Commission to the stay of the Trustee's obligation to dispose of the first tranche of shares pending the District Court's determination of the joint motion.

On January 30, 2002, we completed a transaction with UnitedGlobalCom (the ''New United Transaction'') pursuant to which a new holding company (''New United'') was formed to own UnitedGlobalCom, and all shares of UnitedGlobalCom common stock were exchanged for shares of common stock of New United. In addition, we contributed (i) cash consideration of $200 million; (ii) a note receivable from Belmarken Holding B.V., a subsidiary of UnitedGlobalCom, with an accreted value of $892 million and (iii) Senior Notes and Senior Discount Notes of United-Pan Europe Communications N.V., a subsidiary of UnitedGlobalCom, comprised of U.S. dollar denominated notes with a face amount of $1,435 million and euro denominated notes with a face amount of euro 263 million, which we acquired in the fourth quarter of 2001, to New United in exchange for 281.3 million shares of Class C common stock of New United. Upon consummation of the New United transaction, we own an approximate 72% economic interest and a 94% voting interest in New United. Pursuant to certain voting and standstill arrangements entered into at the time of closing, we are unable to exercise control of New United, and accordingly, we will continue to use the equity method of accounting for our investment.

Also on January 30, 2002, New United acquired from us our debt and equity interests in IDT United, Inc. and $751 million principal amount at maturity of UnitedGlobalCom's $1,375 million 10¾% senior secured discount notes due 2008 (the ''2008 Notes''), which had been distributed to us in redemption of a portion of our interest in IDT United. IDT United was formed as an indirect subsidiary of IDT Corporation for purposes of effecting a tender offer for all outstanding 2008 Notes at a purchase price of $400 per $1,000 principal amount at maturity, which tender offer expired on February 1, 2002. The aggregate purchase price for our interest in IDT United of $449 million equaled the aggregate amount we had invested in IDT United, plus interest. Approximately $305 million of the purchase paid was paid by the assumption by New United of debt owed by us to a subsidiary of UnitedGlobalCom and the remainder was credited against the $200 million cash contribution by us to New United described above. In connection with the New United Transaction, one of our subsidiaries agreed to loan to a subsidiary of New United up to $105 million. As of February 28, 2002, such subsidiary of New United has borrowed $103 million from our subsidiary to acquire additional shares of preferred stock and promissory notes issued by IDT United. The 2008 Notes owned by IDT United, together with 2008 Notes acquired by New United directly from us referred to above, all of which remain outstanding, represent approximately 98.2% of the outstanding 2008 Notes.

UnitedGlobalCom and its significant operating subsidiaries have incurred losses since their formation, as they have attempted to expand and develop their businesses and introduce new services. In November 2001, United Australia/Pacific, Inc. (''UAP''), a 50% owned affiliate of UnitedGlobalCom, failed to make interest payments on certain of its senior notes. Following such default, the trustee of the Indenture for UAP's senior notes declared the principal and interest due and payable. In February 2002, United Pan-Europe Communications N.V. (''UPC''), a majority-owned consolidated subsidiary of UnitedGlobalCom, failed to make required interest payments on certain of its senior notes. Both UAP and UPC are negotiating the restructuring of their respective debt instruments. No assurance can be given that such negotiations will be successful. In addition, certain other UnitedGlobalCom subsidiaries do not have sufficient working capital to service their debt or other liabilities when due during the next year. As a result of the foregoing, there is substantial doubt about UnitedGlobalCom's ability to continue as a going concern. UnitedGlobalCom's management is taking steps to address these matters. However, no assurance can be given that such steps will be successful.

We have guaranteed $619 million of the bank debt of Jupiter, an equity affiliate that provides broadband services in Japan. Approximately $343 million of such guaranteed amount is due and payable by Jupiter during the first quarter of 2002. Jupiter is currently negotiating the refinancing of substantially all of its long-term and short-term debt. We anticipate that we and the other Jupiter shareholders will make equity contributions to Jupiter in connection with such refinancing, and that our share of such equity contributions will be approximately $450 million. Upon such refinancing, we anticipate that our guarantee of Jupiter debt would be cancelled.

We have also guaranteed various loans, notes payable, letters of credit and other obligations (the ''Guaranteed Obligations'') of certain other affiliates. At December 31, 2001, the Guaranteed Obligations aggregated approximately $170 million. Currently, we are not certain of the likelihood of being required to perform under such guarantees.

Information concerning the amount and timing of required payments under our contractual obligations is summarized below:

	Payments due by period				
Contractual obligation	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**	**Total**
	amounts in millions				
Long-term debt (1)	$1,143	332	1,024	5,665	8,164
Operating lease obligations	70	115	71	115	371
Film Licensing Obligations (2)	405	378	191	388	1,362
Total contractual payments	$1,618	825	1,286	6,168	9,897

(1) Includes all debt instruments, including the call option feature related to our exchangeable debentures. Amounts are stated at the face amount at maturity and may differ from the amounts stated in our consolidated balance sheet to the extent debt instruments (i) were issued at a discount or premium or (ii) are reported at fair value in our consolidated balance sheet. Also includes capital lease obligations.

(2) Starz Encore Group is obligated to pay fees for the rights to exhibit certain films that are released by various producers through 2014. The amounts in the table represent the minimum obligation based on the number of Starz Encore subscribers at December 31, 2001. The amount of the total obligation is not currently estimable because such amount is dependent upon the number of qualifying films released theatrically by certain motion picture studios as well as the domestic theatrical exhibition receipts upon the release of such qualifying films.

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

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (the ''FASB'') issued Statement No. 141, Business Combinations (''Statement 141''), and Statement No. 142, Goodwill and Other Intangible Assets (''Statement 142''). Statement 141 requires that the purchase method of accounting be used for all business combinations. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require 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 SFAS Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

We adopted the provisions of Statement 141 effective July 1, 2001, and are required to adopt Statement 142 effective January 1, 2002.

Statement 141 requires upon adoption of Statement 142, that we evaluate our existing intangible assets and goodwill that were acquired in prior purchase business combinations, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, we will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, we will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with Statement 142's transitional goodwill impairment evaluation, Statement 142 will require us to perform an assessment of whether there is an indication that goodwill and equity-method goodwill is impaired as of the date of adoption. To accomplish this, we must identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. We will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and we must perform the second step of the transitional impairment test. In the second step, we must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in our statement of operations.

As of the date of adoption, we will have unamortized goodwill in the amount of $9,191 million, unamortized identifiable intangible assets in the amount of $831 million, and unamortized equity-method excess costs in the amount of $7,766 million, all of which will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was $617 million and $587 million for the years ended December 31, 2001 and 2000, respectively; and amortization of equity-method excess costs (included in share of losses of affiliates) aggregated $798 million and $1,058 million for the years ended December 31, 2001 and 2000, respectively. We currently estimate that upon adoption of Statement 142, we will be required to recognize a $1.5-$2.0 billion transitional impairment loss as the cumulative effect of a change in accounting principle. The foregoing estimate does not include an adjustment for our proportionate share of any transition adjustments that our equity method affiliates may record, as we are currently unable to estimate the amount of such adjustment.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supercedes prior statements that address the disposal of a segment of a business, and eliminates the exception to consolidation for subsidiaries for which control is likely to be temporary. This statement retains the prior statement's fundamental provisions for the recognition and measurement of impairment of long-lived assets to be held and used, as well as the measurement of long-lived assets to be disposed of by sale. The statement is effective for fiscal years beginning after December 15, 2001. We have not determined the impact that adoption of this statement will have on its financial position, results of operations or cash flow.

Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risk in the normal course of business due to our investments in different foreign countries and ongoing investing and financial activities. Market risk refers to the risk of loss arising from adverse changes in foreign currency exchange rates, interest rates and stock prices. 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.

Investments in and advances to our foreign affiliates are denominated in foreign currencies. Therefore, we are exposed to changes in foreign currency exchange rates. We do not hedge the majority of our foreign currency exchange risk because of the long-term nature of our interests in foreign affiliates. During 2001, we entered into a definitive agreement to acquire six regional cable television systems in Germany. A portion of the consideration for such acquisition was to be denominated in euros. In order to reduce our exposure to changes in the euro exchange rate, we had entered into forward purchase contracts with respect to euro 3,243 million as of December 31, 2001. Such contracts generally have terms ranging from 90 to 120 days and can be renewed at their expiration at our option. At December 31, 2001, we had recorded a liability of $24 million representing unrealized losses related to these contracts. In February 2002, we failed to receive regulatory approval for our proposed German cable acquisition. From time to time we evaluate potential European acquisitions that may require euro currency, and accordingly, we currently intend to renew our euro forward purchase contracts in order to limit our exposure to increases in the euro exchange rate. We may also choose to settle certain of our euro forward purchase contracts depending on the value of the euro. No assurance can be given regarding the future value of the euro, and we continue to be subject to risk of further devaluation of the euro. If the price of the euro had been 10% lower at December 31, 2001, we would have recognized an unrealized loss on financial instruments of $289 million. We continually evaluate our foreign currency exposure based on current market conditions and the business environment in each country in which we operate.

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 appropriate mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity and (ii) issuing short-term variable rate debt to take advantage of historically low short-term interest rates. As of December 31, 2001, $3,727 million or 63% of our debt was composed of fixed rate debt with a weighted average stated interest rate of 5.8%. Our variable rate debt of $2,180 million had a weighted average interest rate of 3.8% at December 31, 2001. Had market interest rates been 100 basis points higher (representing an approximate 26% increase over our variable rate debt effective cost of borrowing) throughout the year ended December 31, 2001, we would have recognized approximately $19 million of additional interest expense. Had the price of the securities underlying the call option obligations associated with our senior exchangeable debentures been 10% higher during the year ended December 31, 2001, we would have recognized an additional unrealized loss on financial instruments of $165 million.

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 specifically changes in the stock prices of our holdings. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. We use equity collars, put spread collars and other financial instruments to manage market risk associated with certain investment positions. These instruments are recorded at fair value based on option pricing models. Equity collars provide us with a put option that gives us the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price (the ‘‘Company Put 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 are equally priced at the time of origination resulting in no cash receipts or payments. Our equity collars are accounted for as fair value hedges.

Put spread collars provide us and the counterparty with put and call options similar to equity collars. In addition, put spread collars provide the counterparty with a put option that gives it the right to require us to purchase the underlying securities at a price that is lower than the Company Put Price. The inclusion of the secondary put option allows us to secure a higher call option price while maintaining net zero cost to enter into the collar. However, the inclusion of the secondary put exposes us to market risk if the underlying security trades below the put spread price. Our put spread collars have not been designated as fair value hedges.

The following table provides information regarding our equity and put spread collars at December 31, 2001:

Security	Type of collar	No. of underlying shares (000's)	Weighted average put spread price per share	Weighted average put price per share	Weighted average call price per share	Weighted average years to maturity
AOL	Equity collar	36,100	N/A	$47	$ 96	3.6
AOL	Put spread	21,538	$ 28	$49	$118	3.2
Sprint PCS	Equity collar	156,506	N/A	$26	$ 41	6.2
News Corp.	Equity collar	5,000	N/A	$45	$ 85	3.2
News Corp.	Put spread	6,916	$ 20	$33	$ 79	3.8
Motorola	Equity collar	67,624	N/A	$24	$ 44	2.1
Cendant	Equity collar	26,357	N/A	$19	$ 33	3.4
Priceline	Equity collar	3,125	N/A	$37	$ 92	3.5

At December 31, 2001, the fair value of the securities underlying the equity and put spread collars in the foregoing table was $7,536 million, (excluding the fair value of the related equity and put spread collars) and the total value of our available-for-sale equity securities was $19,537 million. Had the market price of our unhedged available-for-sale securities been 10% lower at December 31, 2001, the aggregate value of such securities would have been $1,200 million lower resulting in an increase to unrealized losses in other comprehensive earnings.

Had the stock price of our publicly traded investments accounted for using the equity method been 10% lower at December 31, 2001, there would have been no impact on the carrying value of such investments.

From time to time we enter into total return debt swaps in connection with our purchase of our own or third-party public and private indebtedness. Under these arrangements, we direct a counterparty to purchase a specified amount of the underlying debentures for our benefit. We post collateral with the counterparty equal to 10% of the value of the purchased securities We earn interest income based upon the face amount and stated interest rate of the debt securities, and we pay interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying debentures declines, we are required to post cash collateral for the decline, and we record an unrealized loss on financial instruments. At December 31, 2001, the aggregate purchase price of debt securities underlying total return debt swap arrangements was $118 million. As of such date, we had posted cash collateral equal to $59 million. In the event the fair value of the purchased debt securities were to fall to zero, we would be required to post additional cash collateral of $59 million.

We measure the effectiveness of our derivative financial instruments through comparison of the blended rates achieved by those derivative financial instruments to the historical trends in the underlying market risk hedged. 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 hedged facilities. With regard to equity collars, we monitor historical market trends relative to values currently present in the market. We believe that any unrealized losses incurred with regard to equity collars and swaps would be offset by the effects of fair value changes on the underlying assets. These measures allow our management to measure the success of its use of derivative instruments and to determine when to enter into or exit from derivative instruments.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Media Corporation and subsidiaries (''New Liberty'' or ''Successor'') as of December 31, 2001 and 2000, and the related consolidated statements of operations, comprehensive earnings, stockholders' equity, and cash flows for the years ended December 31, 2001 and 2000 and the period from March 1, 1999 to December 31, 1999 (Successor periods) and from January 1, 1999 to February 28, 1999 (Predecessor period). 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 auditing standards generally accepted in the United States of America. 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 aforementioned Successor consolidated financial statements present fairly, in all material respects, the financial position of New Liberty as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the Successor periods, in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the aforementioned Predecessor consolidated financial statements present fairly, in all material respects, the results of their operations and their cash flows for the Predecessor period, in conformity with accounting principles generally accepted in the United States of America.

As discussed in notes 3 and 8 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities in 2001.

As discussed in note 1 to the consolidated financial statements, effective March 9, 1999, AT&T Corp., the former parent company of New Liberty, acquired Tele-Communications, Inc., the former parent company of Liberty Media Corporation, in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial information for the periods after the acquisition is presented on a different cost basis than that for the periods before the acquisition and, therefore, is not comparable.

KPMG LLP

Denver, Colorado
March 8, 2002

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

	2001	2000*
	amounts in millions	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,077	1,295
Short-term investments	397	500
Trade and other receivables, net	356	307
Prepaid expenses and program rights	352	283
Deferred income tax assets (note 9)	311	242
Other current assets	38	73
Total current assets	3,531	2,700
Investments in affiliates, accounted for using the equity method, and related receivables (note 5)	10,076	20,464
Investments in available-for-sale securities and other cost investments (note 6)	23,544	19,035
Property and equipment, at cost	1,190	976
Accumulated depreciation	(249)	(131)
	941	845
Intangible assets:		
Excess cost over acquired net assets	10,752	10,896
Franchise costs	190	190
	10,942	11,086
Accumulated amortization	(1,588)	(998)
	9,354	10,088
Other assets, at cost, net of accumulated amortization	1,093	1,136
Total assets	$48,539	54,268

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

	2001	2000*
	amounts in millions	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 127	148
Accrued interest payable	159	105
Other accrued liabilities	278	401
Accrued stock compensation (note 11)	833	1,216
Program rights payable	240	179
Current portion of debt	1,143	1,094
Total current liabilities	2,780	3,143
Long-term debt (note 8)	4,764	5,269
Call option obligations (note 8)	1,320	—
Deferred income tax liabilities (note 9)	8,977	11,337
Other liabilities	442	62
Total liabilities	18,283	19,811
Minority interests in equity of subsidiaries	133	348
Stockholders' equity (note 10):		
Preferred stock, $.01 par value. Authorized 50,000,000 shares; no shares issued and outstanding	—	—
Series A common stock $.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 2,378,127,544 shares at December 31, 2001	24	—
Series B common stock $.01 par value. Authorized 400,000,000 shares; issued and outstanding 212,045,288 shares at December 31, 2001	2	—
Additional paid-in capital	35,996	35,042
Accumulated other comprehensive earnings (loss), net of taxes (note 13)	840	(397)
Accumulated deficit	(6,739)	(536)
Total stockholders' equity	30,123	34,109
Commitments and contingencies (note 14)		
Total liabilities and stockholders' equity	$48,539	54,268

* as restated, see note 2

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	New Liberty			Old Liberty
	Year ended December 31, 2001	Year ended December 31, 2000*	Ten months ended December 31, 1999*	Two months ended February 28, 1999
	amounts in millions (note 2)			
Revenue:				
Unaffiliated parties	$ 1,849	1,283	549	192
Related parties (note 10)	210	243	180	43
	2,059	1,526	729	235
Operating costs and expenses:				
Operating	1,089	801	343	95
Selling, general and administrative ("SG&A")	573	348	229	87
Charges from related parties (note 10)	20	37	24	6
Stock compensation-SG&A (note 11)	132	(950)	1,785	183
Depreciation	209	122	19	7
Amortization	775	732	543	15
Impairment of long-lived assets (note 3)	388	—	—	—
	3,186	1,090	2,943	393
Operating income (loss)	(1,127)	436	(2,214)	(158)
Other income (expense):				
Interest expense	(525)	(399)	(135)	(26)
Dividend and interest income	272	301	242	10
Share of losses of affiliates, net (note 5)	(4,906)	(3,485)	(904)	(66)
Nontemporary declines in fair value of investments (note 6)	(4,101)	(1,463)	—	—
Realized and unrealized gains (losses) on financial instruments, net (note 3)	(174)	223	(153)	—
Gains (losses) on dispositions, net (notes 5 and 6)	(310)	7,340	4	14
Other, net	(11)	3	(4)	363
	(9,755)	2,520	(950)	295
Earnings (loss) before income taxes and minority interest	(10,882)	2,956	(3,164)	137
Income tax benefit (expense) (note 9)	3,908	(1,534)	1,097	(211)
Minority interests in losses of subsidiaries	226	63	46	4
Earnings (loss) before cumulative effect of accounting change	(6,748)	1,485	(2,021)	(70)
Cumulative effect of accounting change, net of taxes (notes 3 and 8)	545	—	—	—
Net earnings (loss)	$ (6,203)	1,485	(2,021)	(70)
Pro forma earnings (loss) per common share (note 3):				
Pro forma basic and diluted earnings (loss) before cumulative effect of accounting change	$ (2.61)	.57	(.78)	(.03)
Cumulative effect of accounting change, net of taxes	.21	—	—	—
Pro forma basic and diluted net earnings (loss)	$ (2.40)	.57	(.78)	(.03)
Pro forma number of common shares outstanding	2,588	2,588	2,588	2,588

* as restated, see note 2

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

	New Liberty			Old Liberty
	Year ended December 31, 2001	Year ended December 31, 2000*	Ten months ended December 31, 1999*	Two months ended February 28, 1999
	amounts in millions			
Net earnings (loss)	$(6,203)	1,485	(2,021)	(70)
Other comprehensive earnings, net of taxes (note 13):				
Foreign currency translation adjustments	(359)	(202)	60	(15)
Unrealized holding gains (losses) arising during the period	(1,013)	(6,115)	6,488	885
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	2,696	(635)	7	—
Cumulative effect of accounting change (notes 3 and 8)	(87)	—	—	—
Other comprehensive (loss) earnings	1,237	(6,952)	6,555	870
Comprehensive earnings (loss)	$(4,966)	(5,467)	4,534	800

* as restated, see note 2

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred stock	Common stock Series A	Common stock Series B	Additional paid-in capital	Accumulated other comprehensive earnings, net of taxes	Accumulated (deficit) earnings	Total stockholders' equity
				amounts in millions			
Balance at January 1, 1999	$ —	—	—	4,682	3,186	952	8,820
Net loss	—	—	—	—	—	(70)	(70)
Other comprehensive earnings	—	—	—	—	870	—	870
Other transfers from related parties, net	—	—	—	430	—	—	430
Balance on February 28, 1999	$ —	—	—	5,112	4,056	882	10,050
Balance at March 1, 1999 (as restated, see note 2)	$ —	—	—	33,500	—	—	33,500
Net loss	—	—	—	—	—	(2,021)	(2,021)
Other comprehensive earnings	—	—	—	—	6,555	—	6,555
Transfer from related party for redemption of debentures	—	—	—	354	—	—	354
Gains in connection with issuances of stock of affiliates and subsidiaries, net of taxes (note 10)	—	—	—	108	—	—	108
Utilization of net operating losses of Liberty by AT&T (note 9)	—	—	—	(88)	—	—	(88)
Balance at December 31, 1999	—	—	—	33,874	6,555	(2,021)	38,408
Net earnings	—	—	—	—	—	1,485	1,485
Other comprehensive loss	—	—	—	—	(6,952)	—	(6,952)
Issuance of AT&T Class A Liberty Media Group common stock for acquisitions (note 7)	—	—	—	1,064	—	—	1,064
Gains in connection with issuances of stock by affiliates and subsidiaries, net of taxes (note 10)	—	—	—	355	—	—	355
Utilization of net operating losses of Liberty by AT&T (note 9)	—	—	—	(38)	—	—	(38)
Other transfers to related parties, net	—	—	—	(213)	—	—	(213)
Balance at December 31, 2000	—	—	—	35,042	(397)	(536)	34,109
Net loss	—	—	—	—	—	(6,203)	(6,203)
Other comprehensive earnings	—	—	—	—	1,237	—	1,237
Issuance of common stock upon consummation of Split Off Transaction (note 2)	—	24	2	(26)	—	—	—
Contribution from AT&T upon consummation of Split Off Transaction (note 2)	—	—	—	803	—	—	803
Accrual of amounts due to AT&T for taxes on deferred intercompany gains (note 2)	—	—	—	(115)	—	—	(115)
Losses in connection with issuances of stock by subsidiaries and affiliates, net of taxes (note 10)	—	—	—	(8)	—	—	(8)
Utilization of net operating losses of Liberty by AT&T prior to Split Off Transaction (note 9)	—	—	—	(2)	—	—	(2)
Stock option exercises and issuance of restricted stock prior to Split Off Transaction	—	—	—	302	—	—	302
Balance at December 31, 2001	$ —	24	2	35,996	840	(6,739)	30,123

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	New Liberty			Old Liberty
	Year ended December 31, 2001	Year ended December 31, 2000*	Ten months ended December 31, 1999*	Two months ended February 28, 1999
	amounts in millions (note 4)			
Cash flows from operating activities:				
Net earnings (loss)	$(6,203)	1,485	(2,021)	(70)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:				
Cumulative effect of accounting change, net of taxes	(545)	—	—	—
Depreciation and amortization	984	854	562	22
Impairment of long-lived assets	388	—	—	—
Stock compensation	132	(950)	1,785	183
Payments of stock compensation	(244)	(319)	(111)	(126)
Share of losses of affiliates, net	4,906	3,485	904	66
Nontemporary decline in fair value of investments	4,101	1,463	—	—
Realized and unrealized losses (gains) on financial instruments, net	174	(223)	153	—
Losses (gains) on disposition of assets, net	310	(7,340)	(4)	(14)
Minority interests in losses of subsidiaries	(226)	(63)	(46)	(4)
Deferred income tax expense (benefit)	(3,613)	1,821	(1,025)	212
Intergroup tax allocation	(222)	(294)	(75)	(1)
Payments from AT&T pursuant to tax sharing agreement	166	414	1	—
Other noncash charges (income)	40	15	3	(354)
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions:				
Receivables	30	(116)	7	33
Prepaid expenses and program rights	(148)	(121)	(119)	(23)
Payables and other current liabilities	(4)	88	119	(31)
Net cash provided (used) by operating activities	26	199	133	(107)
Cash flows from investing activities:				
Cash paid for acquisitions	(113)	(735)	(109)	—
Capital expended for property and equipment	(358)	(221)	(40)	(15)
Investments in and loans to equity affiliates	(1,031)	(1,568)	(1,090)	(30)
Investments in and loans to cost investments	(1,548)	(1,791)	(1,506)	(21)
Purchases of marketable securities	(269)	(848)	(7,757)	(3)
Sales and maturities of marketable securities	615	1,820	5,725	9
Cash proceeds from dispositions	471	456	130	43
Other investing activities, net	(5)	21	(11)	(62)
Net cash used by investing activities	(2,238)	(2,866)	(4,658)	(79)
Cash flows from financing activities:				
Borrowings of debt	1,639	4,597	3,187	155
Proceeds attributed to call option obligations upon issuance of senior exchangeable debentures	1,028	—	—	—
Repayments of debt	(1,048)	(2,156)	(2,211)	(145)
Net proceeds from issuance of stock by subsidiaries	—	121	123	—
Premium proceeds from financial instruments	383	—	—	—
Proceeds from settlement of financial instruments, net	366	—	—	—
Payment from AT&T related to Split Off Transaction	803	—	—	—
Cash transfers (to) from related parties	(157)	(286)	(159)	31
Other financing activities, net	(20)	(28)	(20)	(52)
Net cash provided (used) by financing activities	2,994	2,248	920	(11)
Net increase (decrease) in cash and cash equivalents	782	(419)	(3,605)	(197)
Cash and cash equivalents at beginning of period	1,295	1,714	5,319	228
Cash and cash equivalents at end of period	$ 2,077	1,295	1,714	31

* as restated, see note 2

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Media Corporation (''Liberty'' or the ''Company'') and those of all majority-owned and controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Liberty's domestic subsidiaries generally operate or hold interests in businesses which provide programming services including production, acquisition and distribution through all available formats and media of branded entertainment, educational and informational programming and software. In addition, certain of Liberty's subsidiaries hold interests in businesses engaged in wireless telephony, electronic retailing, direct marketing and advertising sales relating to programming services, infomercials and transaction processing. Liberty also has significant interests in foreign affiliates which operate in cable television, programming and satellite distribution.

(2) AT&T Ownership of Liberty

On March 9, 1999, AT&T Corp. (''AT&T'') acquired Tele-Communications, Inc. (''TCI''), the former parent company of Liberty, in a merger transaction (the ''AT&T Merger''). As a result of the AT&T Merger, each series of TCI common stock was converted into a class of AT&T common stock subject to applicable exchange ratios. The AT&T Merger was accounted for using the purchase method. Accordingly, at the time of the AT&T Merger, Liberty's assets and liabilities were recorded at their respective fair values resulting in a new cost basis. For financial reporting purposes the AT&T Merger is deemed to have occurred on March 1, 1999. Accordingly, for periods prior to March 1, 1999 the assets and liabilities of Liberty and the related consolidated financial statements are sometimes referred to herein as ''Old Liberty,'' and for periods subsequent to February 28, 1999 the assets and liabilities of Liberty and the related consolidated financial statements are sometimes referred to herein as ''New Liberty.'' The ''Company'' and ''Liberty'' refer to both New Liberty and Old Liberty.

The following table represents the summary balance sheet of Old Liberty at February 28, 1999, prior to the AT&T Merger and the opening summary balance sheet of New Liberty subsequent to the AT&T Merger. Certain pre-merger transactions occurring between March 1, 1999, and March 9, 1999, that affected Old Liberty's equity, gains on issuance of equity securities by affiliates and subsidiaries, and stock compensation have been reflected in the two-month period ended February 28, 1999.

	New Liberty	Old Liberty
	amounts in millions	
ASSETS		
Cash and cash equivalents	$ 5,319	31
Other current assets	434	1,011
Investments in affiliates	17,116	3,971
Investments in available-for-sale securities	13,094	11,974
Property and equipment, net	125	111
Intangibles and other assets	11,159	389
	$47,247	17,487
LIABILITIES AND EQUITY		
Current liabilities	$ 1,872	1,051
Long-term debt	1,845	2,087
Deferred income taxes	9,972	4,147
Other liabilities	19	90
Total liabilities	13,708	7,375
Minority interests in equity of subsidiaries	39	62
Stockholder's equity	33,500	10,050
	$47,247	17,487

From March 9, 1999 through August 9, 2001, AT&T owned 100% of the outstanding common stock of Liberty. During such time, the AT&T Class A Liberty Media Group common stock and the AT&T Class B Liberty Media Group common stock (together, the AT&T Liberty Media Group tracking stock) were tracking stocks of AT&T designed to reflect the economic performance of the businesses and assets of AT&T attributed to the Liberty Media Group. Liberty was included in the Liberty Media Group.

On May 7, 2001, AT&T contributed to Liberty assets that were attributed to the Liberty Media Group but not previously owned by Liberty (the ''Contributed Assets''). These assets included (i) preferred stock and common stock interests in a subsidiary of IDT Corporation, a multinational telecommunications services provider and (ii) an approximate 8% indirect common equity interest in Liberty Digital, Inc. (''Liberty Digital''). Subsequent to these contributions, the businesses and assets of Liberty and its subsidiaries constituted all of the businesses and assets of the Liberty Media Group. The contributions have been accounted for in a manner similar to a pooling of interests and, accordingly, the financial statements of Liberty for periods prior to the contributions have been restated to include the financial position and results of operations of the Contributed Assets.

Effective August 10, 2001, AT&T effected the split-off of Liberty pursuant to which Liberty's common stock was recapitalized, and each outstanding share of AT&T Class A Liberty Media Group tracking stock was redeemed for one share of Liberty Series A common stock and each outstanding share of AT&T Class B Liberty Media Group tracking stock was redeemed for one share of Liberty Series B common stock (the ''Split Off Transaction''). Subsequent to the Split Off Transaction, Liberty is no longer a subsidiary of AT&T and no shares of AT&T Liberty Media Group tracking stock remain outstanding. The Split Off Transaction has been accounted for at historical cost.

In connection with the Split Off Transaction, Liberty has also been deconsolidated from AT&T for federal income tax purposes. As a result, AT&T was required to pay Liberty an amount equal to 35% of the amount of the net operating loss carryforward reflected in TCI's final federal income tax return that has not been used as an offset to Liberty's obligations under the AT&T Tax Sharing Agreement and that has been, or is reasonably expected to be, utilized by AT&T. The $803 million payment was received by Liberty prior to the Split Off Transaction and has been reflected as an increase to additional paid-in-capital in the accompanying consolidated statement of stockholders' equity. In addition, certain deferred intercompany gains will be includible in AT&T's taxable income as a result of the Split Off Transaction, and AT&T will be entitled to reimbursement from Liberty for the resulting tax liability of approximately $115 million. Such tax liability has been accrued as of December 31, 2001 and has been reflected as a reduction in additional paid-in-capital in the accompanying consolidated statement of stockholders' equity.

(3) Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Receivables

Receivables are reflected net of an allowance for doubtful accounts. Such allowance at December 31, 2001 and 2000 was not material.

Program Rights

Prepaid program rights are amortized on a film-by-film basis over the anticipated number of exhibitions. Committed program rights and program rights payable are recorded at the estimated cost of the programs when the film is available for airing less prepayments. These amounts are amortized on a film-by-film basis over the anticipated number of exhibitions.

Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale and are carried at fair value. Unrealized holding gains and losses on securities that are classified as available-for-sale (''AFS Securities'') and are hedged with a derivative financial instrument that qualifies as a fair value hedge under Statement of Financial Accounting Standards No. 133 ''Accounting for Derivative Instruments and Hedging Activities'' (''Statement 133'') are recognized in the Company's consolidated statement of operations. Unrealized holding gains and losses of AFS Securities that are not hedged pursuant to Statement 133 are carried net of taxes as a component of accumulated other comprehensive earnings in stockholder's equity. Realized gains and losses are determined on an average cost basis. Other investments in which the Company's ownership interest is less than 20% and are not considered marketable securities are carried at the lower of cost or net realizable value.

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliates as they occur rather then as dividends or other distributions are received, limited to the extent of the Company's investment in, advances to and commitments for the investee. The Company's share of net earnings or losses of affiliates includes the amortization of the difference between the Company's investment and its share of the net assets of the investee and also includes any nontemporary declines in fair value recognized during the period.

Subsequent to the AT&T Merger, changes in the Company's proportionate share of the underlying equity of a subsidiary or equity method investee, which result from the issuance of additional equity securities by such subsidiary or equity investee, are recognized as increases or decreases in the Company's consolidated statements of stockholders' equity.

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary (''nontemporary''). The Company considers a number of factors in its determination including (i) the financial condition, operating performance and near term prospects of the investee; (ii) the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; (iii) analysts' ratings and estimates of 12 month share price targets for the investee; (iv) the length of time that the fair value of the investment is below the Company's carrying value; and (v) 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 are included in the consolidated statements of operations as nontemporary declines in fair values of investments. Writedowns for equity method investments are included in share of losses of affiliates.

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.

Excess Cost Over Acquired Net Assets

Excess cost over acquired net assets consists of the difference between the cost of acquiring non-cable entities and amounts assigned to their tangible assets. Such amounts are amortized using the straight-line method over periods ranging from 5 to 20 years.

Franchise Costs

Franchise costs generally include the difference between the cost of acquiring cable companies and amounts allocated to their tangible assets. Such amounts are amortized using the straight-line method over 20 years.

Impairment of Long-lived Assets

The Company periodically reviews the carrying amounts of its property and equipment and its intangible assets 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.

As a result of the weakness in the economy in 2001 certain subsidiaries of the Company did not meet their 2001 operating objectives and have reduced their 2002 expectations. Accordingly, the subsidiaries assessed the recoverability of their property and equipment and intangible assets and determined that impairment adjustments were necessary. In addition, in the fourth quarter, a subsidiary made the decision to consolidate certain of its operations and close certain facilities. In connection with these initiatives, the subsidiary recorded a restructuring charge related to lease cancellation fees and an additional impairment charge related to its property and equipment. All of the foregoing charges are included in impairment of long-lived assets in the Company's statement of operations.

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.

Preferred stock (and accumulated dividends thereon) of subsidiaries are included in minority interests in equity of subsidiaries. Dividend requirements on such preferred stocks are reflected as minority interests in earnings of subsidiaries in the accompanying consolidated statements of operations and comprehensive earnings.

Foreign Currency Translation

The functional currency of the Company is the United States (''U.S.'') dollar. The functional currency of the Company's foreign operations generally is the applicable local currency for each foreign subsidiary and foreign equity method investee. Assets and liabilities of foreign subsidiaries and foreign equity investees are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations and the Company's share of the results of operations of its foreign equity affiliates are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in stockholder's 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.

Unless otherwise indicated, convenience translations of foreign currencies into U.S. dollars are calculated using the applicable spot rate at December 31, 2001, as published in The Wall Street Journal.

Derivative Instruments and Hedging Activities

The Company uses various derivative instruments including equity collars, put spread collars, bond swaps and foreign exchange contracts to manage fair value and cash flow risk associated with many of its investments, some of its variable rate debt and forecasted transactions to be denominated in foreign currencies.

Each of these derivative instruments is executed with a counterparty, generally 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:

- Executes its derivative instruments with several different counterparties, and
- Executes 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 were to reach certain levels, generally a rating that is below Standard & Poor's rating of A-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 these counterparties. Based on its analysis, the Company considers nonperformance by any of its counterparties to be unlikely.

Effective January 1, 2001, Liberty adopted Statement 133, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be 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. Currently, the only instruments designated as hedges are the Company's equity collars, which are designated as fair value hedges.

The fair value of 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 selects a volatility rate at the inception of the derivative instrument based on the historical volatility of the underlying security and on the term of the derivative instrument. The volatility assumption is generally not changed during the term of the derivative instrument unless there is an indication that the historical volatility is no longer appropriate. 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.

Derivative gains and losses included in other comprehensive earnings are reclassified into earnings at the time the sale of the hedged item or transaction is recognized.

Prior to the adoption of Statement 133, changes in the fair value of the Company's equity collars were reported as a component of comprehensive earnings (in unrealized gains) along with changes in the fair value of the underlying securities. Changes in the fair value of put spread collars were recorded as unrealized gains (losses) on financial instruments in the consolidated statements of operations.

The adoption of Statement 133 on January 1, 2001, resulted in a cumulative increase in net earnings of $545 million, or $0.21 per common share, (after tax expense of $356 million) and an increase in other comprehensive loss of $87 million. The increase in net earnings was mostly attributable to separately recording the fair value of the embedded call option obligations associated with the Company's senior exchangeable debentures. The increase in other comprehensive loss relates primarily to changes in the fair value of the Company's warrants and options to purchase certain available-for-sale securities.

The Company assesses the effectiveness of equity collars by comparing changes in the intrinsic value of the equity collar to changes in the fair value of the underlying security. For derivatives designated as fair value hedges, changes in the time value of the derivatives, which are excluded from the assessment of hedge effectiveness, are recognized currently in earnings as a component of realized and unrealized gains (losses) on financial instruments. Hedge ineffectiveness, determined in accordance with Statement 133, had no impact on earnings for the year ended December 31, 2001.

For the year ended December 31, 2001, realized and unrealized gains on financial instruments included a $167 million unrealized gain related to call option obligations, a $616 million unrealized net loss for changes in the fair value of derivative instruments related to available-for-sale securities and other derivatives not designed as hedging instruments, and a $275 million unrealized net gain for changes in the time value of options for fair value hedges. During the year ended December 31, 2001, the Company received cash proceeds of $329 million as a result of unwinding certain of its equity collars. Pursuant to Statement 133, the proceeds received less the offsetting impact of hedge accounting on the underlying securities resulted in $162 million of realized and unrealized gains on financial instruments in the consolidated statement of operations for the year ended December 31, 2001.

Revenue Recognition

Programming revenue is recognized in the period during which programming is provided, pursuant to affiliation agreements. Advertising revenue is recognized, net of agency commissions, in the period during which underlying advertisements are broadcast. Revenue from post-production services is recognized in the period the services are rendered. Cable and other distribution revenue is recognized in the period that services are rendered. Cable installation revenue is recognized in the period the related services are provided to the extent of direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that customers are expected to remain connected to the cable distribution system.

Advertising Costs

Advertising costs generally are expensed as incurred. Advertising expense aggregated $43 million, $35 million, $18 million and $4 million for the years ended December 31, 2001 and 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively.

Stock Based Compensation

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (‘‘Statement 123’’), establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. As allowed by Statement 123, Liberty continues to account for stock-based compensation pursuant to Accounting Principles Board Opinion No. 25 (‘‘APB Opinion No. 25’’).

Agreements that may require Liberty to reacquire interests in subsidiaries held by officers and employees in the future are marked-to-market at the end of each reporting period with corresponding adjustments being recorded to stock compensation expense.

Pro Forma Earnings (Loss) Per Common Share

Pro forma basic earnings (loss) per common share is computed by dividing net earnings (loss) by the pro forma number of common shares outstanding. The pro forma number of outstanding common shares for periods prior to the Split Off Transaction is based upon the number of shares of Series A and Series B Liberty common stock issued upon consummation of the Split Off Transaction. Pro forma diluted earnings (loss) per common share presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented. Excluded from diluted earnings per share for the year ended December 31, 2001, are 76 million potential common shares because their inclusion would be anti-dilutive.

Reclassifications

Certain prior period amounts have been reclassified for comparability with the 2001 presentation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (the ''FASB'') issued Statement No. 141, Business Combinations (''Statement 141''), and Statement No. 142, Goodwill and Other Intangible Assets (''Statement 142''). Statement 141 requires that the purchase method of accounting be used for all business combinations. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require 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 SFAS Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

The Company adopted the provisions of Statement 141 effective July 1, 2001, and is required to adopt Statement 142 effective January 1, 2002.

Statement 141 requires upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in prior purchase business combinations, and make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with Statement 142's transitional goodwill impairment evaluation, Statement 142 will require the Company to perform an assessment of whether there is an indication that goodwill and equity-method goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of earnings.

As of the date of adoption, the Company will have unamortized goodwill in the amount of $9,191 million, unamortized identifiable intangible assets in the amount of $831 million, and unamortized equity-method excess costs in the amount of $7,766 million, all of which will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was $617 million and $587 million for the years ended December 31, 2001 and 2000, respectively; and amortization of equity-method excess costs (included in share of losses of affiliates) aggregated $798 million and $1,058 million for the years ended December 31, 2001 and 2000, respectively. The Company currently estimates that upon adoption of Statement 142, it will be required to recognize a $1.5—$2.0 billion transitional impairment loss as the cumulative effect of a change in accounting principle. The foregoing estimate does not include an adjustment for the Company's proportionate share of any transition adjustments that its equity method affiliates may record, as the Company is currently unable to estimate the amount of such adjustment.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ''Accounting for the Impairment or Disposal of Long-Lived Assets,'' which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supercedes prior statements that address the disposal of a segment of a business, and eliminates the exception to consolidation for subsidiaries for which control is likely to be temporary. This statement retains the prior statement's fundamental provisions for the recognition and measurement of impairment of long-lived assets to be held and used, as well as the measurement of long-lived assets to be disposed of by sale. The statement is effective for fiscal years beginning after December 15, 2001. The Company has not determined the impact that adoption of this statement will have on its financial position, results of operations or cash flow.

(4) Supplemental Disclosures to Consolidated Statements of Cash Flows

	New Liberty			Old Liberty
	Year ended December 31, 2001	Year ended December 31, 2000	Ten months ended December 31, 1999	Two months ended February 28, 1999
	amounts in millions			
Cash paid for acquisitions:				
Fair value of assets acquired	$ 264	3,733	122	—
Net liabilities assumed	(136)	(1,208)	(13)	—
Deferred tax liability	(7)	(281)	—	—
Minority interest	(8)	(445)	—	—
Contribution to equity for acquisitions	—	(1,064)	—	—
Cash paid for acquisitions	$ 113	735	109	—
Cash paid for interest	$ 451	335	93	32
Cash paid for income taxes	$ 9	2	1	—

During the ten months ended December 31, 1999, certain subsidiaries with a carrying value of $135 million were exchanged for a cost method investment in an online music venture.

The following table reflects the change in cash and cash equivalents resulting from the AT&T Merger and related restructuring transactions (amounts in millions):

Cash and cash equivalents prior to the AT&T Merger	$ 31
Cash contribution in connection with the AT&T Merger	5,464
Cash paid to TCI for certain warrants	(176)
Cash and cash equivalents subsequent to the AT&T Merger	$5,319

(5) 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, 2001 and the carrying amount at December 31, 2000:

	December 31, 2001		December 31, 2000
	Percentage Ownership	Carrying Amount	Carrying Amount
		dollar amounts in millions	
Discovery Communications, Inc. ("Discovery")	50%	$ 2,900	3,133
QVC, Inc. ("QVC")	42%	2,543	2,508
USA Networks, Inc. ("USAI") and related investments	20%	2,857	2,824
UnitedGlobalCom, Inc. ("UnitedGlobalCom")	20%	(418)	314
Telewest Communications plc ("Telewest")	25%	97	2,712
Jupiter Telecommunications Co., Ltd. ("Jupiter")	35%	407	575
Gemstar—TV Guide International, Inc. ("Gemstar")	N/A	—	5,855
Other	various	1,690	2,543
		$10,076	20,464

The following table reflects Liberty's share of earnings (losses) of affiliates including excess basis amortization and nontemporary declines in value:

	New Liberty			Old Liberty
	Year ended December 31, 2001	Year ended December 31, 2000	Ten months ended December 31, 1999	Two months ended February 28, 1999
	amounts in millions			
Discovery	$ (293)	(293)	(269)	(8)
QVC	36	(12)	(11)	13
USAI and related investments	35	(36)	(20)	10
UnitedGlobalCom	(751)	(211)	23	—
Telewest	(2,538)	(441)	(222)	(38)
Jupiter	(90)	(114)	(54)	(7)
Cablevisión S.A. ("Cablevisión")	(476)	(49)	(28)	(3)
ASTROLINK International LLC ("Astrolink")	(417)	(8)	—	—
Teligent, Inc. ("Teligent")	(85)	(1,269)	—	—
Gemstar	(133)	(254)	—	—
Other	(194)	(798)	(323)	(33)
	$(4,906)	(3,485)	(904)	(66)

At December 31, 2001, the aggregate carrying amount of Liberty's investments in its affiliates exceeded Liberty's proportionate share of its affiliates' net assets by $7,766 million. Such excess is being amortized over estimated useful lives of up to 20 years. Such amortization was $798 million, $1,058 million, $463 million and $9 million for the years ended December 31, 2001 and 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively, and is included in share of losses of affiliates.

Certain of Liberty's affiliates are general partnerships and, as such, Liberty is liable as a matter of partnership law for all debts (other than non-recourse debts) of that partnership in the event liabilities of that partnership were to exceed its assets.

USAI

USAI owns and operates businesses in network and television production, electronic retailing, ticketing operations, and internet services. At December 31, 2001, Liberty held 74.4 million shares of USAI's common stock. In addition, at December 31, 2001, Liberty held shares and other equity interests in certain subsidiaries of USAI that are exchangeable for an aggregate of 79.0 million shares of USAI common stock. The exchange of such shares and interests is subject to certain conditions including that Liberty's ownership of USAI's common stock issuable upon such exchange not being restricted by Federal Communications Commission ("FCC") regulations. On August 28, 2001, USAI gave Liberty notice that on August 21, 2001 USAI had sold its television broadcast stations and associated broadcast licenses and as a result of such sale, FCC regulations no longer restricted Liberty's ownership of shares of USAI's common stock issuable upon such exchange and, accordingly, that USAI was exercising its right to require that Liberty exchange such stock and other interests of such subsidiaries for shares of USAI common stock (the "USAI Exchange").

If the USAI Exchange had been completed at December 31, 2001, Liberty would have owned 153.4 million shares or approximately 20% (on a fully-diluted basis) of USAI common stock. The closing price of USAI's common stock on December 31, 2001 was $27.31 per share.

In December 2001, Liberty entered into an agreement with USAI and Vivendi Universal, S.A. (''Vivendi''), pursuant to which USAI will contribute substantially all of its entertainment assets to a partnership controlled by Vivendi. In connection with the transaction, Liberty entered into a separate agreement with Vivendi, pursuant to which Vivendi will acquire from Liberty 25 million shares of common stock of USAI, approximately 38.7 millions shares of USANi LLC, which are exchangeable, on a one-for-one basis, for shares of USAI common stock, and all of its approximate 30% interest in multiThematiques S.A., together with certain liabilities with respect thereto, in exchange for ADSs representing approximately 37.4 million Vivendi ordinary shares, subject to adjustment. The closing of Liberty's transaction with Vivendi and the closing of Vivendi's transaction with USAI are conditioned on one another. Subsequent to the Vivendi transaction with USAI, USAI will be renamed USA Interactive. The Company anticipates that the Vivendi transaction will be consummated in the second quarter of 2002. Upon completion Liberty will own approximately 3% of Vivendi and 20% of USA Interactive.

UnitedGlobalCom

UnitedGlobalCom is a global broadband communications provider of video, voice and data services with operations in over 25 countries throughout the world. At December 31, 2001, Liberty owned an approximate 20% economic ownership interest representing an approximate 40% voting interest in UnitedGlobalCom. Liberty owns 9.9 million shares of UnitedGlobalCom Class B common stock and 13.1 million shares of UnitedGlobalCom Class A common stock. The UnitedGlobalCom Class B common stock is convertible, on a one-for-one basis, into UnitedGlobalCom Class A common stock. The closing price of UnitedGlobalCom's Class A common stock on December 31, 2001 was $5.00 per share.

On January 30, 2002, the Company and UnitedGlobalCom completed a transaction (the ''New United Transaction'') pursuant to which a new holding company (''New United'') was formed to own UnitedGlobalCom, and all shares of UnitedGlobalCom common stock were exchanged for shares of common stock of New United. In addition, the Company contributed (i) cash consideration of $200 million; (ii) a note receivable from Belmarken Holding B.V., a subsidiary of UnitedGlobalCom, with an accreted value of $892 million and (iii) Senior Notes and Senior Discount Notes of United-Pan Europe Communications N.V., a subsidiary of UnitedGlobalCom, comprised of U.S. dollar denominated notes with a face amount of $1,435 million and euro denominated notes with a face amount of euro 263 million to New United in exchange for 281.3 million shares of Class C common stock of New United. Upon consummation of the New United Transaction, Liberty owns an approximate 72% economic interest and a 94% voting interest in New United. Pursuant to certain voting and standstill arrangements entered into at the time of closing, Liberty is unable to exercise control of New United, and accordingly, Liberty will continue to use the equity method of accounting for its investment. Due to the Company's commitment to increase its investment in UnitedGlobalCom, as evidenced by the New United Transaction, the Company recognized its share of UnitedGlobalCom's losses such that its investment in UnitedGlobalCom was less than zero at December 31, 2001. As the Company's investment in United Pan-Europe Communications, N.V., a subsidiary of UnitedGlobalCom, has a carrying value of $718 million at December 31, 2001, the Company continues to include the negative carrying value of its UnitedGlobalCom investment in investments accounted for using the equity method.

Also on January 30, 2002, New United acquired from Liberty its debt and equity interests in IDT United, Inc. and $751 million principal amount at maturity of UnitedGlobalCom's $1,375 million 10-3/4% senior secured discount notes due 2008 (the ''2008 Notes''), which had been distributed to Liberty in redemption of a portion of its interest in IDT United. IDT United was formed as an indirect subsidiary of IDT Corporation for purposes of effecting a tender offer for all outstanding 2008 Notes at a purchase price of $400 per $1,000 principal amount at maturity, which tender offer expired on February 1, 2002. The aggregate purchase price for the Company's interest in IDT United of approximately $449 million was equal to the aggregate amount

Liberty had invested in IDT United, plus interest. Approximately $305 million of the purchase paid was paid by the assumption by New United of debt owed by Liberty to a subsidiary of UnitedGlobalCom, and the remainder was credited against the $200 million cash contribution by Liberty to New United described above. In connection with the New United Transaction, a subsidiary of Liberty agreed to loan to a subsidiary of New United up to $105 million. As of February 28, 2002, such subsidiary of New United has borrowed $103 million from the Liberty subsidiary to acquire additional shares of preferred stock and promissory notes issued by IDT United. The 2008 Notes owned by IDT United, together with 2008 Notes acquired by New United directly from Liberty referred to above, all of which remain outstanding, represent approximately 98.2% of the outstanding 2008 Notes.

Telewest

Telewest currently operates and constructs cable television and telephone systems in the UK. In April 2000, Telewest acquired Flextech p.l.c. (''Flextech'') which develops and sells a variety of television programming in the UK. Prior to the acquisition, Liberty owned an approximate 37% equity interest in Flextech and a 22% equity interest in Telewest. As a result of the acquisition, Liberty owns an approximate 25% equity interest in Telewest. Liberty recognized a $649 million gain (excluding related tax expense of $227 million) on the acquisition based on the difference between the carrying value of Liberty's interest in Flextech and the fair value of the Telewest shares received. At December 31, 2001 Liberty indirectly owned 744.4 million of the issued and outstanding Telewest ordinary shares. The closing price of Telewest's ordinary shares on December 31, 2001 was $0.94 per share.

During the year ended December 31, 2001, Liberty determined that its investment in Telewest experienced a nontemporary decline in value. As a result, the carrying value of Telewest was adjusted to its estimated fair value, and the Company recorded a charge of $1,801 million. Such charge is included in share of losses of affiliates. Summarized financial information for Telewest is as follows:

	December 31,	
	2001	2000
	amounts in millions	
Financial Position		
Investments	$ 795	377
Property and equipment, net	5,051	5,078
Intangibles, net	2,752	4,666
Other assets, net	611	586
Total assets	$9,209	10,707
Debt	$7,122	6,360
Other liabilities	1,431	1,080
Owners' equity	656	3,267
Total liabilities and equity	$9,209	10,707

	Years ended December 31,		
	2001	2000	1999
	amounts in millions		
Results of Operations			
Revenue	$ 1,811	1,623	1,064
Operating expenses	(1,380)	(1,293)	(777)
Operating cash flow (as defined by Liberty)	431	330	287
Depreciation and amortization	(941)	(863)	(475)
Impairment of long-lived assets	(1,112)	—	—
Interest expense	(681)	(585)	(350)
Other, net	(217)	(27)	(155)
Net loss	$(2,520)	(1,145)	(693)

Gemstar

Gemstar is a global technology and media company focused on consumer entertainment. The common stock of Gemstar is publicly traded. On July 12, 2000, Gemstar acquired TV Guide, Inc. (''TV Guide''). TV Guide shareholders received .6573 shares of Gemstar common stock in exchange for each share of TV Guide. As a result of this transaction, 133 million shares of TV Guide held by Liberty were exchanged for 87.5 million shares or 21% of Gemstar common stock. Liberty recognized a $4,391 million gain (before deferred tax expense of $1,737 million) on such transaction during the third quarter of 2000 based on the difference between the carrying value of Liberty's interest in TV Guide and the fair value of the Gemstar securities received.

In May 2001, Liberty consummated a transaction (''Exchange Transaction'') with The News Corporation Limited (''News Corp.'') whereby Liberty exchanged 70.7 million shares of Gemstar for 121.5 million News Corp. American Depository Shares (''ADSs'') representing preferred, limited voting, ordinary shares of News Corp. Liberty recorded a loss of $764 million in connection with the Exchange Transaction as the fair value of the securities received by Liberty was less than the carrying value of the Gemstar shares. In December 2001, Liberty exchanged its remaining Gemstar shares for 28.8 million additional News Corp. ADSs and recorded an additional loss of $201 million.

Cablevisión

Cablevisión provides cable television and high speed data services in Argentina. At December 31, 2001, the Company has a 50% ownership in Cablevisión. The Argentine government has historically maintained an exchange rate of one Argentine peso to one U.S. dollar (the ''peg rate''). Due to deteriorating economic and political conditions in Argentina in late 2001, the Argentine government eliminated the peg rate effective January 11, 2002. The value of the Argentine peso dropped significantly on the day the peg rate was eliminated. In addition, the Argentine government placed restrictions on the payment of obligations to foreign creditors. As a result of the devaluation of the Argentine peso, Cablevisión recorded foreign currency translation losses of $393 million in the fourth quarter of 2001. At December 31, 2001, the Company determined that its investment in Cablevisión had experienced a nontemporary decline in value, and accordingly, recorded an impairment charge of $195 million. Such charge is included in share of losses of affiliates. The Company's share of losses in 2001, when combined with foreign currency translation losses recorded in other comprehensive loss at December 31, 2001, reduced the carrying value of its investment in Cablevisión to zero as of December 31, 2001. Included in accumulated other comprehensive earnings at December 31, 2001 is $257 million of unrealized foreign currency translation losses related to the Company's investment in Cablevisión.

Astrolink

Astrolink, a developmental stage entity, originally intended to build a global telecom network using Ka-band geostationary satellites to provide broadband data communications services. Astrolink's original business plan required significant additional financing over the next several years. During the fourth quarter of 2001, two of the members of Astrolink informed Astrolink that they do not intend to provide any of Astrolink's required financing. In light of this decision, Astrolink is considering several alternatives with respect to its proposed business plan, including, but not limited to, seeking alternative funding sources, scaling back their proposed business plan, and liquidating the venture entirely. There can be no assurance that Astrolink will be able to obtain the necessary financing on acceptable terms, or that it will be able to fulfill the business plan as originally proposed, or at all.

During the second quarter of 2001, the Company determined that its investment in Astrolink experienced a nontemporary decline in value. Accordingly, the carrying amount of such investment was adjusted to its then estimated fair value resulting in a recognized loss of $155 million. Such loss is included in share of losses of affiliates. Based on a fourth quarter 2001 assessment of Astrolink's remaining sources of liquidity and Astrolink's inability to obtain financing for its business plan, the Company concluded that the carrying value of its investment in Astrolink should be further reduced to reflect a fair value that assumes the liquidation of Astrolink. Accordingly, the Company wrote-off all of its remaining investment in Astrolink during the fourth quarter of 2001. The aggregate amount required to reduce its investment in Astrolink to zero was $250 million. Including such fourth quarter amount, the Company recorded losses and charges relating to its investment in Astrolink aggregating $417 million during the year ended December 31, 2001.

Teligent

In January 2000, the Company acquired a 40% equity interest in Teligent, a full-service facilities based communications company. During the nine months ended September 30, 2000, the Company determined that its investment in Teligent experienced a nontemporary decline in value. As a result, the carrying amount of this investment was adjusted to its estimated fair value resulting in a charge of $839 million. This impairment charge is included in share of losses of affiliates. In April 2001, the Company exchanged its investment in Teligent for shares of IDT Investments, Inc., a subsidiary of IDT Corporation. As the fair value of the consideration received in the exchange approximated the carrying value of the Company's investment in Teligent, no gain or loss was recognized on the transaction. The Company accounts for its investment in IDT Investments, Inc. using the cost method.

Summarized unaudited combined financial information for affiliates other than Telewest is as follows:

	December 31, 2001	December 31, 2000
	amounts in millions	
Combined Financial Position		
Investments	$ 872	1,776
Property and equipment, net	7,060	8,294
Intangibles, net	15,183	26,763
Other assets, net	10,837	11,603
Total assets	$33,952	48,436
Debt	$17,262	18,351
Other liabilities	14,075	15,904
Owners' equity	2,615	14,181
Total liabilities and equity	$33,952	48,436

	Years ended December 31, 2001	2000	1999
	amounts in millions		
Combined Operations			
Revenue	$ 15,132	14,626	10,787
Operating expenses	(13,381)	(13,511)	(9,401)
Depreciation and amortization	(2,703)	(2,718)	(1,087)
Impairment charges	(1,426)	—	—
Operating income (loss)	(2,378)	(1,603)	299
Interest expense	(1,639)	(1,616)	(599)
Other, net	(685)	174	(75)
Net loss	$ (4,702)	(3,045)	(375)

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

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

	December 31, 2001	December 31, 2000
	amounts in millions	
Sprint Corporation ("Sprint")	$ 5,697	5,192
AOL Time Warner Inc. ("AOL Time Warner")	6,236	—
News Corp.	6,118	2,342
Motorola, Inc. ("Motorola")	1,773	1,982
Viacom, Inc. ("Viacom")	670	—
United Pan-Europe Communications N.V. ("UPC")	718	203
Time Warner Inc. ("Time Warner")	—	6,325
Other available-for-sale securities	2,386	2,989
Other investments, at cost, and related receivables	343	502
	23,941	19,535
Less short-term investments	(397)	(500)
	$23,544	19,035

Sprint PCS

Liberty and certain of its consolidated subsidiaries collectively are the beneficial owners of approximately 197 million shares of Sprint PCS Group Stock and certain other instruments convertible into such securities (the ''Sprint Securities''). The Sprint PCS Group Stock is a tracking stock intended to reflect the performance of Sprint's domestic wireless PCS operations. Liberty accounts for its investment in the Sprint Securities as an available-for-sale security.

Pursuant to a final judgment (the ''Final Judgment'') agreed to by Liberty, AT&T and the United States Department of Justice (the ''DOJ'') on December 31, 1998, Liberty transferred all of its beneficially owned Sprint Securities to a trustee (the ''Trustee'') prior to the AT&T Merger. The Final Judgment, which was entered by the United States District Court of the District of Columbia on August 23, 1999, requires the Trustee, on or before May 23, 2002, to dispose of a portion of the Sprint Securities sufficient to cause Liberty to beneficially own no more than 10% of the outstanding Sprint PCS Group common stock—Series 1 on a fully diluted basis on such date. On or before May 23, 2004, the Trustee must divest the remainder of the Sprint Securities beneficially owned by Liberty. As of December 31, 2001, Liberty beneficially owned approximately 19% of Sprint PCS Group common stock—Series 2.

The Final Judgment requires that the Trustee vote the Sprint Securities beneficially owned by Liberty and its consolidated subsidiaries in the same proportion as other holders of Sprint Securities so long as such securities are held by the trust. The Final Judgment also prohibits the acquisition by Liberty of additional Sprint Securities, with certain exceptions, without the prior written consent of the DOJ. At Liberty's request, the Department of Justice has joined Liberty and AT&T in a joint motion to terminate the Final Judgment which was filed in the District Court in February 2002. Under the terms of the Final Judgment, the obligation of the trustee to dispose of the first tranche of shares by May 23, 2002 will be stayed while the District Court considers the joint motion. Liberty is also seeking the approval of the Federal Communications Commission to the stay of the trustee's obligation to dispose of the first tranche of shares pending the District Court's determination of the joint motion.

AOL Time Warner

On January 11, 2001, America Online, Inc. completed its merger with Time Warner to form AOL Time Warner. In connection with the merger, each share of Time Warner common stock held by Liberty was converted into 1.5 shares of an identical series of AOL Time Warner stock. Upon completion of this transaction, Liberty holds a total of 171 million shares in AOL Time Warner. Liberty recognized a $253 million gain (before deferred tax expense of $100 million) based upon the difference between the carrying value of Liberty's interest in Time Warner and the fair value of the AOL Time Warner securities received.

News Corp.

In May and December of 2001, Liberty acquired an aggregate of 154 million News Corp. ADSs in exchange for its shares of Gemstar common stock and another equity investment. Liberty recorded a loss of $965 million in connection with these exchanges based on the difference between the fair value of the News Corp. ADSs received and the carrying value of the Gemstar investment. In connection with this transaction, the Company agreed to restrictions on its ability to transfer certain of the ADSs prior to May 2003. Liberty had previously acquired 51.8 million News Corp. ADSs in 1999 in exchange for Liberty's 50% interest in Fox/Liberty Networks, and had acquired 28.1 million ADSs for $695 million in cash. Liberty recognized a $13 million gain on the 1999 exchange. At December 31, 2001, Liberty owned 236 million ADSs or approximately 18% of the outstanding equity of News Corp. Liberty accounts for its investment in News Corp. as an available-for-sale security.

Motorola

On January 5, 2000, Motorola acquired General Instrument Corporation (''General Instrument''). In connection with such acquisition, Liberty received 54 million shares of Motorola common stock and warrants to purchase an additional 37 million shares in exchange for its holdings in General Instrument. Liberty recognized a $2,233 million gain (before deferred tax expense of $883 million) on such transaction during the first quarter of 2000 based on the difference between the carrying value of Liberty's interest in General Instrument and the fair value of the Motorola securities received. At December 31, 2001 Liberty holds approximately 71 million shares of Motorola common stock and vested warrants to purchase an additional 18 million shares of such common stock at $8.26 per share. Such warrants expire on June 30, 2002.

Viacom

On January 23, 2001, BET Holdings II, Inc. (''BET'') was acquired by Viacom in exchange for shares of Class B common stock of Viacom. As a result of the merger, Liberty received 15.2 million shares of Viacom's Class B common stock (less than 1% of Viacom's common equity) in exchange for its 35% ownership interest in BET, which investment had been accounted for using the equity method. Liberty accounts for its investment in Viacom as an available-for-sale security. Liberty recognized a gain of $559 million (before deferred tax expense of $221 million) in the first quarter of 2001 based upon the difference between the carrying value of Liberty's interest in BET and the value of the Viacom securities received.

UPC

In May 2001, the Company entered into a loan agreement with UPC and Belmarken Holding B.V. (''Belmarken''), a subsidiary of UPC, pursuant to which the Company loaned Belmarken $857 million, which represented a 30% discount to the face amount of the loan of $1,225 million (the ''Belmarken Loan''). UPC is a consolidated subsidiary of UnitedGlobalCom. The loan accrues interest at 6% per annum, and all principal and interest are due in May 2007. After May 29, 2002, the loan is exchangeable, at the option of the Company, into shares of ordinary common stock of UPC at a rate of $6.85 per share. At inception, Liberty recorded the conversion feature of the loan at its estimated fair value of $420 million, and the $437 million remaining balance as a loan receivable. Liberty accounts for the convertible feature of the Belmarken Loan as a derivative security under Statement 133, and records the convertible feature at fair value with periodic market adjustments recorded in the statement of operations as unrealized gains or losses. The discounted loan receivable is being accreted up to the $1,225 million face amount over its term. Such accretion, which includes the stated interest of 6%, is being recognized in interest income over the term of the loan. Upon consummation of the New United Transaction, the Company contributed the Belmarken Loan to New United in exchange for Class C shares of New United. Liberty had previously purchased exchangeable preferred stock and warrants of UPC in December 2000 for $203 million.

During 2001, the Company acquired certain outstanding senior notes and senior discount notes of UPC. Liberty acquired approximately $1,435 million face amount of U.S. dollar denominated notes and euro 263 million face amount of euro denominated notes for an aggregate purchase price of $358 million. Such notes were contributed to New United in connection with the New United Transaction on January 30, 2002.

Nontemporary Decline in Fair Value of Investments

During the years ended December 31, 2001 and 2001, Liberty determined that certain of its AFS Securities and cost investments experienced nontemporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based primarily on recent quoted market prices. These adjustments are reflected as nontemporary declines in fair value of investments in the consolidated statements of operations. The following table identifies the realized losses attributable to each of the individual investments as follows:

	Year ended December 31,	
	2001	2000
	amounts in millions	
Investments		
AOL Time Warner	$2,052	—
News Corp.	915	—
Viacom	201	—
UPC preferred stock	195	—
Antec Corporation	127	—
Motorola	232	1,276
Primedia	—	103
Others	379	84
	$4,101	1,463

Equity Collars and Put Spread Collars

The Company has entered into equity collars, put spread collars and other financial instruments to manage market risk associated with its investments in certain marketable securities. These instruments are recorded at fair value based on option pricing models. Equity collars provide the Company with a put option that gives the Company the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price (the ‘‘Company Put 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 are equally priced at the time of origination resulting in no cash receipts or payments. The Company's equity collars are accounted for as fair value hedges.

Put spread collars provide the Company and the counterparty with put and call options similar to equity collars. In addition, put spread collars provide the counterparty with a put option that gives it the right to require the Company to purchase the underlying securities at a price that is lower than the Company Put Price. The inclusion of the secondary put option allows the Company to secure a higher call option price while maintaining net zero cost to enter into the collar. The Company's put spread collars have not been designated as fair value hedges.

Investments in available-for-sale securities at December 31, 2001 and 2000 are summarized as follows:

	December 31, 2001				
	Equity securities	Equity collars	Put spread collars	Debt securities	Total
	amounts in millions				
Cost basis	$19,310	—	—	1,457	20,767
Gross gains recognized in earnings	84	1,800	263	—	2,147
Gross losses recognized in earnings	(1,542)	—	—	—	(1,542)
Gross unrealized holding gains	2,185	—	—	94	2,279
Gross unrealized holding losses	(500)	—	—	(46)	(546)
Fair value	$19,537	1,800	263	1,505	23,105

	December 31, 2000				
	Equity securities	Equity collars	Put spread collars	Debt securities	Total
	amounts in millions				
Cost basis	$17,640	—	—	1,533	19,173
Gross gains recognized in earnings	—	—	188	—	188
Gross unrealized holding gains	1,003	1,080	—	86	2,169
Gross unrealized holding losses	(2,636)	—	—	(64)	(2,700)
Fair value	$16,007	1,080	188	1,555	18,830

Management estimates that the fair market value of all of its investments in available-for-sale securities and others aggregated $23,760 million and $19,664 million at December 31, 2001 and December 31, 2000, respectively. Management calculates market values using a variety of approaches including multiple of cash flow, per subscriber value, a value of comparable public or private businesses or publicly quoted market prices. No independent appraisals were conducted for those assets.

Forward Foreign Exchange Contracts

The Company does not hedge the majority of its foreign currency exchange risk because of the long term nature of its interests in foreign affiliates. During 2001, the Company entered into a definitive agreement to acquire six regional cable television systems in Germany. A portion of the consideration for such acquisition was to be denominated in euros. In order to reduce its exposure to changes in the euro exchange rate, Liberty had entered into forward purchase contracts with respect to euro 3,243 million as of December 31, 2001. Such contracts generally have terms ranging from 90 to 120 days and can be renewed at their expiration at Liberty's option. Liberty is not accounting for the forward purchase contracts as hedges. At December 31, 2001, the Company had recorded a liability of $24 million representing unrealized losses related to these contracts due to a decrease in the value of the euro compared to the U.S. dollar.

Total Return Debt Swaps

From time to time the Company enters into total return debt swaps in connection with its purchase of its own or third-party public and private indebtedness. Under these arrangements, Liberty directs a counterparty to purchase a specified amount of the underlying debt security for the benefit of the Company. The Company posts collateral with the counterparty equal to 10% of the value of the purchased securities. The Company earns interest income based upon the face amount and stated interest rate of the debentures, and pays interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying debentures declines, the Company is required to post cash collateral for the decline, and the Company records an unrealized loss on financial instruments. Liberty has the contractual right to net settle the total return debt swaps, and currently, intends to do so. Accordingly, Liberty records the net asset related to the total return debt swaps.

At December 31, 2001, the aggregate purchase price of debt securities underlying Liberty's total return debt swap arrangements was $118 million. As of such date, the Company had posted cash collateral equal to $59 million. In the event the fair value of the purchased debt securities were to fall to zero, the Company would be required to post additional cash collateral of $59 million.

(7) Acquisitions and Dispositions

2000

Associated Group, Inc. ("Associated Group")

On January 14, 2000, Liberty completed its acquisition of Associated Group pursuant to a merger agreement among AT&T, Liberty and Associated Group. Under the merger agreement, each share of Associated Group's Class A common stock and Class B common stock was converted into 0.49634 shares of AT&T common stock and 2.41422 shares of AT&T Class A Liberty Media Group common stock. Prior to the merger, Associated Group's primary assets were (1) 19.7 million shares of AT&T common stock, (2) 46.8 million shares of AT&T Class A Liberty Media Group common stock, (3) 10.6 million shares of AT&T Class B Liberty Media Group common stock, (4) 21.4 million shares of common stock of Teligent, and (5) all of the outstanding shares of common stock of TruePosition, Inc., which provides location services for wireless carriers and users designed to determine the location of any wireless transmitter, including cellular and PCS telephones. Immediately following the completion of the merger, all of the assets and businesses of Associated Group were transferred to Liberty. All of the shares of AT&T common stock, AT&T Class A Liberty Media Group common stock and AT&T Class B Liberty Media Group common stock previously held by Associated Group were retired by AT&T.

The acquisition of Associated Group was accounted for as a purchase, and the $17 million excess of the fair value of the net assets acquired over the purchase price is being amortized over ten years. As a result of the issuance of AT&T Class A Liberty Media Group common stock, net of the shares of AT&T Class A Liberty Media Group common stock acquired in this transaction, Liberty recorded a $778 million increase to additional paid-in-capital, which represents the total purchase price of this acquisition.

Liberty Satellite & Technology, Inc.

On March 16, 2000, Liberty purchased shares of preferred stock in TCI Satellite Entertainment, Inc. in exchange for Liberty's economic interest in approximately 5 million shares of Sprint PCS Group stock, which had a fair value of $300 million. During the third quarter of 2000, TCI Satellite Entertainment, Inc. changed its name to Liberty Satellite & Technology, Inc. ("LSAT"). Liberty received 150,000 shares of LSAT Series A 12% Cumulative Preferred Stock and 150,000 shares of LSAT Series B 8% Cumulative Convertible Voting Preferred Stock. The Series A preferred stock does not have voting rights, while the Series B preferred stock gives Liberty approximately 85% of the voting power of LSAT. In connection with this transaction, Liberty realized a $211 million gain (before related tax expense of $84 million) based on the difference between the cost basis and fair value of the economic interest in the Sprint PCS Group stock exchanged.

Ascent Entertainment Group, Inc. (“Ascent”)

On March 28, 2000, Liberty completed its cash tender offer for the outstanding common stock of Ascent at a price of $15.25 per share. Approximately 85% of the outstanding shares of common stock of Ascent were tendered in the offer and Liberty paid approximately $385 million. On June 8, 2000, Liberty completed its acquisition of 100% of Ascent for an additional $67 million. The total purchase price for the acquisition was $452 million. Such transaction was accounted for as a purchase, and the $228 million excess of the purchase price over the fair value of the net assets acquired is being amortized over five years.

Liberty Livewire Corporation (“Liberty Livewire”)

On April 10, 2000, Liberty acquired all of the outstanding common stock of Four Media Company (‘‘Four Media’’) for total consideration of $462 million comprised of $123 million in cash, $194 million of assumed debt, 6.4 million shares of AT&T Class A Liberty Media Group common stock and a warrant to purchase approximately 700,000 shares of AT&T Class A Liberty Media Group common stock at an exercise price of $23 per share. Four Media provides technical and creative services to owners, producers and distributors of television programming, feature films and other entertainment products both domestically and internationally.

On June 9, 2000, Liberty acquired a controlling interest in The Todd-AO Corporation (‘‘Todd-AO’’), in exchange for approximately 5.4 million shares of AT&T Class A Liberty Media Group common stock valued at $106 million. Todd-AO provides sound, video and ancillary post production and distribution services to the motion picture and television industries in the United States and Europe.

Immediately following the closing of such transaction, Liberty contributed to Todd-AO 100% of the capital stock of Four Media, in exchange for approximately 16.6 million shares of the Class B Common Stock of Todd-AO increasing Liberty’s ownership interest in Todd-AO to approximately 84% of the equity and approximately 98% of the voting power. Following Liberty’s acquisition of Todd-AO, and the contribution by Liberty to Todd-AO of Liberty’s ownership in Four Media, Todd-AO changed its name to Liberty Livewire.

On July 19, 2000, Liberty purchased all of the assets relating to the post production, content and sound editorial businesses of SounDelux Entertainment Group for $90 million in cash, and contributed such assets to Liberty Livewire in exchange for approximately 8.2 million additional shares of Liberty Livewire Class B Common Stock. Following this contribution, Liberty’s ownership in Liberty Livewire increased to approximately 88% of the equity and approximately 99% of the voting power of Liberty Livewire.

Each of the foregoing acquisitions was accounted for as a purchase. In connection therewith, Liberty recorded an aggregate increase to additional paid-in-capital of $251 million. The $452 million excess purchase price over the fair value of the net assets acquired is being amortized over 20 years.

1999

TV Guide

On March 1, 1999, United Video Satellite Group, Inc. (‘‘UVSG’’), a consolidated subsidiary of Liberty, and News Corp. completed a transaction whereby UVSG acquired News Corp.’s TV Guide properties and UVSG was renamed TV Guide. Upon completion of this transaction, and another transaction completed by TV Guide on the same date, Liberty owned an economic interest of approximately 44% and controlled approximately 49% of the voting power of TV Guide. In connection with the increase in TV Guide’s equity, net of dilution of Liberty’s ownership interest in TV Guide, Liberty recognized a gain of $372 million (before deducting deferred income taxes of $147 million). Upon consummation, Liberty began accounting for its interest in TV Guide under the equity method of accounting.

Pro Forma Information

The following unaudited pro forma information for the year ended December 31, 2000 was prepared assuming the 2000 acquisitions discussed above occurred on January 1, 2000. These pro forma amounts are not necessarily indicative of operating results that would have occurred if the acquisitions discussed above had occurred on January 1, 2000.

Revenue	$1,769
Net earnings	$1,413
Pro forma basic and diluted earnings per common share	$ 0.55

(8) Long-Term Debt

Debt is summarized as follows:

	Weighted average interest rate 2001	December 31, 2001	December 31, 2000
		amounts in millions	
Parent company debt:			
Senior notes	7.8%	$ 982	742
Senior debentures	8.3%	1,486	1,486
Senior exchangeable debentures	3.7%	858	1,679
Bank credit facilities	2.6%	675	475
Other debt	8.0%	288	580
		4,289	4,962
Debt of subsidiaries:			
Bank credit facilities	4.3%	1,310	1,129
Senior notes	N/A	—	179
Other debt, at varying rates		308	93
		1,618	1,401
Total debt		5,907	6,363
Less current maturities	4.5%	(1,143)	(1,094)
Total long-term debt		$ 4,764	5,269

Senior Notes and Debentures

In July 1999, Liberty issued $750 million of 7⅞% Senior Notes due 2009 and issued $500 million of 8½% Senior Debentures due 2029 for aggregate cash proceeds of $741 million and $494 million, respectively. Interest on both issuances is payable on January 15 and July 15 of each year.

In February 2000, Liberty issued $1 billion of 8¼% Senior Debentures due 2030 for aggregate cash proceeds of $983 million. Interest on these debentures is payable on February 1 and August 1 of each year.

In December 2001, the Company issued $237.8 million of 7¾% Senior Notes due 2009 for cash proceeds of $238.4 million. Interest on these notes is payable on January 15 and July 15 of each year.

The senior notes and debentures are stated net of an aggregate unamortized discount of $19 million and $22 million at December 31, 2001 and 2000, respectively, which is being amortized to interest expense in the consolidated statements of operations.

Senior Exchangeable Debentures

In November 1999, Liberty issued $869 million of 4% Senior Exchangeable Debentures due 2029. Interest is payable on May 15 and November 15 of each year. Each $1,000 debenture is exchangeable at the holder's option for the value of 22.9486 shares of Sprint PCS Group stock. After the later of December 31, 2001 or the date Liberty's ownership level in the Sprint PCS Group falls below a specified level, Liberty may, at its election, pay the exchange value in cash, Sprint PCS Group stock or a combination thereof. Prior to such time, the exchange value must be paid in cash.

In February and March 2000, Liberty issued an aggregate of $810 million of 3¾% Senior Exchangeable Debentures due 2030. Interest is payable on February 15 and August 15 of each year. Each $1,000 debenture is exchangeable at the holder's option for the value of 16.7764 shares of Sprint PCS Group stock. After the later of February 15, 2002 or the date Liberty's ownership level in the Sprint PCS Group falls below a specified level, Liberty may, at its election, pay the exchange value in cash, Sprint PCS Group stock or a combination thereof. Prior to such time, the exchange value must be paid in cash.

In January 2001, Liberty issued $600 million of 3½% Senior Exchangeable Debentures due 2031. Interest is payable on January 15 and July 15 of each year. Each $1,000 debenture 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. On or after January 15, 2006, Liberty, at its option, may redeem the debentures for cash.

In March 2001, Liberty issued $817.7 million of 3¼% Senior Exchangeable Debentures due 2031. Interest is payable on March 15 and September 15 of each year. Each $1,000 debenture is exchangeable at the holder's option for the value of 18.5666 shares of Viacom Class B common stock. After January 23, 2003, such exchange value is payable at Liberty's option in cash, Viacom stock or a combination thereof. Prior to such date, the exchange value must be paid in cash. On or after March 15, 2006, Liberty, at its option, may redeem the debentures for cash.

Prior to the adoption of Statement 133, the carrying amount of the senior exchangeable debentures was adjusted based on the fair value of the underlying security. Increases or decreases in the value of the underlying security above the principal amount of the senior exchangeable debentures were recorded as unrealized gains or losses on financial instruments in the consolidated statements of operations. If the value of the underlying security decreased below the principal amount of the senior exchangeable debentures there was no effect on the principal amount of the debentures.

Upon adoption of Statement 133, the call option feature of the exchangeable debentures is reported separately in the consolidated balance sheet at fair value. Accordingly, at January 1, 2001, Liberty recorded a transition adjustment to reflect the call option obligations at fair value ($459 million) and to recognize in net earnings the difference between the fair value of the call option obligations at issuance and the fair value of the call option obligations at January 1, 2001. Such adjustment to net earnings aggregated $757 million (before tax expense of $299 million) and is included in cumulative effect of accounting change. Changes in the fair value of the call option obligations subsequent to January 1, 2001 are recognized as unrealized gains (losses) on financial instruments in Liberty's consolidated statements of operations. During the year ended December 31, 2001, Liberty recorded unrealized gains of $167 million related to the call option obligations.

Under Statement 133, the reported amount of the long-term debt portion of the exchangeable debentures is calculated as the difference between the face amount of the debentures and the fair value of the call option feature on the date of issuance. The fair value of the call option obligations related to the $1,418 million of exchangeable debentures issued during the year ended December 31, 2001, aggregated $1,028 million on the date of issuance. Accordingly, the long-term debt portion was recorded at $390 million. The long-term debt is accreted to its face amount over the term of the debenture using the effective interest method. Such accretion aggregated $6 million during the year ended December 31, 2001, and is included in interest expense. The transition adjustment noted above resulted in a decrease in the carrying value of the long-term debt portion of the senior exchangeable debentures of $1,216 million on January 1, 2001.

Bank Credit Facilities

At December 31, 2001, Liberty and its subsidiaries had approximately $217 million in unused lines of credit under their respective bank credit facilities. The bank credit facilities generally contain restrictive covenants which require, among other things, the maintenance of certain financial ratios, and include limitations on indebtedness, liens, encumbrances, acquisitions, dispositions, guarantees and dividends. The borrowers were in compliance with their debt covenants at December 31, 2001. Additionally, the bank credit facilities require the payment of fees ranging from .15% to .375% per annum on the average unborrowed portions of the total commitments.

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

2002	$1,143
2003	211
2004	121
2005	435
2006	589

Liberty estimates the fair value of its debt based on the quoted market prices for the same or similar issues or on the current rate offered to Liberty for debt of the same remaining maturities. The fair value of Liberty's publicly traded debt at December 31, 2001 is as follows (amounts in millions):

Senior notes of parent company	$1,024
Senior debentures of parent company	1,438
Senior exchangeable debentures of parent company, including call option liability	2,323

Liberty believes that the carrying amount of the remainder of its debt, which is comprised primarily of variable rate debt, approximated its fair value at December 31, 2001.

A reconciliation of the carrying value of the Company's debt to the face amount at maturity is as follows (amounts in millions):

Carrying value at December 31, 2001	$5,907
Add:	
Unamortized issue discount on Senior Notes and Debentures	19
Unamortized discount attributable to call option feature of exchangeable debentures	2,238
Face amount at maturity	$8,164

(9) Income Taxes

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''). Liberty calculated its respective tax liability on a separate return basis. The income tax provision for Liberty was calculated based on the increase or decrease in the tax liability of the AT&T consolidated group resulting from the inclusion of those items in the consolidated tax return of AT&T which were attributable to Liberty.

Under the AT&T Tax Sharing Agreement, Liberty received a cash payment from AT&T in periods when it generated taxable losses and such taxable losses were utilized by AT&T to reduce the consolidated income tax liability. This utilization of taxable losses was accounted for by Liberty as a current federal intercompany income tax benefit. To the extent such losses were not utilized by AT&T, such amounts were available to reduce federal taxable income generated by Liberty in future periods, similar to a net operating loss carryforward, and were accounted for as a deferred federal income tax benefit.

In periods when Liberty generated federal taxable income, AT&T agreed to satisfy such tax liability on Liberty's behalf up to a certain amount. Thereafter, Liberty was required to make cash payments to AT&T for federal tax liabilities of Liberty. The reduction of such computed tax liabilities was accounted for by Liberty as an increase to additional paid-in-capital.

To the extent AT&T utilized existing net operating losses of Liberty, such amounts were accounted for by Liberty as a reduction of additional paid-in-capital. Net operating losses of Liberty with a tax effected carrying value of $2 million, $38 million and $88 million were recorded as a reduction to additional paid-in-capital during the seven months ended July 31, 2001, the year ended December 31, 2000 and the ten months ended December 31, 1999, respectively.

Liberty generally made cash payments to AT&T related to states where it generated taxable income and received cash payments from AT&T in states where it generates taxable losses.

Prior to the AT&T Merger, Liberty was included in TCI's consolidated tax return and was a party to the TCI tax sharing agreements.

Income tax benefit (expense) consists of:

	New Liberty			Old Liberty
	Year ended December 31 2001	Year ended December 31, 2000	Ten months ended December 31, 1999	Two months ended February 28, 1999
	amounts in millions			
Current:				
Federal	$ 297	277	75	1
State and local	(2)	10	(3)	—
	295	287	72	1
Deferred:				
Federal	3,166	(1,490)	873	(168)
State and local	447	(331)	152	(44)
	3,613	(1,821)	1,025	(212)
Income tax benefit (expense)	$3,908	(1,534)	1,097	(211)

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:

	New Liberty			Old Liberty
	Year ended December 31, 2001	Year ended December 31, 2000	Ten months ended December 31, 1999	Two months ended February 28, 1999
	amounts in millions			
Computed expected tax benefit expense)	$3,809	(1,035)	1,107	(49)
Dividends excluded for income tax purposes	18	22	11	2
Amortization not deductible for income tax purposes	(260)	(187)	(122)	(4)
State and local income taxes, net of federal income taxes	289	(204)	102	(29)
Recognition of difference in income tax basis of investments in subsidiaries	21	(69)	—	(130)
Effect of change in estimated state tax rate	91	—	—	—
Change in valuation allowance	(71)	(50)	—	—
Other, net	11	(11)	(1)	(1)
	$3,908	(1,534)	1,097	(211)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2001 and 2000 are presented below:

	December 31, 2001	December 31, 2000
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 370	363
Accrued stock compensation	296	247
Other future deductible amounts	31	—
Deferred tax assets	697	610
Valuation allowance	(273)	(202)
Net deferred tax assets	424	408
Deferred tax liabilities:		
Investments	8,422	11,255
Intangible assets	164	218
Discount on exchangeable debentures	455	—
Other	49	30
Deferred tax liabilities	9,090	11,503
Net deferred tax liabilities	$8,666	11,095

At December 31, 2001, Liberty had net operating and capital loss carryforwards for income tax purposes aggregating approximately $1,016 million which, if not utilized to reduce taxable income in future periods, will expire as follows: 2004: $1 million; 2005: $16 million; 2006: $14 million; 2007: $16 million; 2008: $12 million; 2009: $27 million; 2010: $6 million; and beyond 2010: $924 million. These net operating losses are subject to certain rules limiting their usage.

AT&T, as the successor to TCI, is the subject of an Internal Revenue Service (''IRS'') audit for the 1993-1995 tax years. The IRS has notified AT&T and Liberty that it is considering proposing income adjustments and assessing certain penalties in connection with TCI's 1994 tax return. The IRS's position could result in recognition of up to approximately $305 million of additional income, resulting in as much as $107 million of additional tax liability, plus interest. In addition, the IRS may assert certain penalties. AT&T and Liberty do not agree with the IRS's proposed adjustments and penalties, and AT&T and Liberty intend to vigorously defend their position. Pursuant to the AT&T Tax Sharing Agreement, Liberty may be obligated to reimburse AT&T for any tax that AT&T is ultimately assessed as a result of this audit. Liberty is currently unable to estimate a range of any such reimbursement, but believes that any such reimbursement would not be material to its financial position.

(10) Stockholder's Equity

Preferred Stock

The Preferred Stock is issuable, from time to time, with such designations, preferences and relative participating, option or other special rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such Preferred Stock adopted by the Board. As of December 31, 2001, no shares of preferred stock were issued.

Common Stock

Prior to the Split Off Transaction, Liberty had 1,000 shares of each of Class A, Class B and Class C common stock outstanding. In connection with the Split Off Transaction, the Class A and Class B common stock were reclassified into Series A common stock and the Class C common stock was reclassified into Series B common stock. The Series A common stock has one vote per share, and the Series B common stock has ten votes per share. Each share of the Series B common stock is exchangeable at the option of the holder for one share of Series A common stock.

As of December 31, 2001, there were 75 million shares of Liberty Series A common stock reserved for issuance under exercise privileges of outstanding stock options.

Stock Issuances of Subsidiaries and Equity Affiliates

Certain consolidated subsidiaries and equity affiliates of Liberty have issued shares of common stock in connection with acquisitions and the exercise of employee stock options. In connection with the increase in the issuers' equity, net of the dilution of Liberty's ownership interest, that resulted from such stock issuances, Liberty recorded increases (decreases) to additional paid-in-capital as follows:

	Year ended December 31, 2001	Year ended December 31, 2000	Ten months ended December 31, 1999
		amounts in millions	
Stock issuances by consolidated subsidiaries	$(8)	212	107
Stock issuances by equity affiliates (net of deferred income taxes of $75 million and $1 million, respectively	—	143	1
	$(8)	355	108

Transactions with Officers and Directors

During the second quarter of 2001, Liberty purchased 2,245,155 shares of common stock of On Command Corporation (''On Command''), a consolidated subsidiary of Liberty, from an executive officer and director of On Command, who is also a director of Liberty, for aggregate cash consideration of $25.2 million. Such purchase price represents a per share price of $11.22. The closing market price for On Command common stock on the day the transaction was signed was $7.77. The Company has included the difference between the aggregate market value of the shares purchased and the cash consideration paid in selling, general and administrative expenses in the accompanying consolidated statement of operations.

In November 2000, Liberty granted certain officers, a director of Liberty (the ''Liberty Director''), and a board member of Liberty Livewire an aggregate 4.0725% common stock interest in Liberty LWR, Inc. (''LWR''), which owned a direct interest in Liberty Livewire. The common stock interest granted to these individuals had a value of approximately $400,000. LWR also awarded the Liberty Director a deferred bonus in the initial total amount of approximately $3.4 million, which amount will decrease by an amount equal to any increase over the five-year period from the date of the award in the value of certain of the common shares granted to the Liberty Director. Liberty and the individuals entered into a stockholders' agreement in which the individuals could require Liberty to repurchase, after five years, all or part of their common stock interest in exchange for Series A Liberty stock at its then fair market value. In addition, Liberty has the right to repurchase, in exchange for Series A Liberty common stock, the common stock interests held by the individuals at fair market value at any time.

In July 2001, LWR formed Liberty Livewire Holdings, Inc. (''Livewire Holdings'') as a wholly owned subsidiary. LWR then sold to certain officers and the Liberty Director an aggregate 19.872% common stock interest in Livewire Holdings with an aggregate value of $600. Liberty, LWR and these individuals entered into a stockholders agreement pursuant to which the individuals can require Liberty to purchase, after five years, all or part of their common stock interest in Livewire Holdings, in exchange for Liberty common stock, at its then-fair market value. In addition, Liberty has the right to purchase, in exchange for its common stock, their common stock interests in Livewire Holdings for fair market value at any time.

In August 2001, in connection with the termination of Liberty Livewire's director and chief executive officer, LWR purchased his common stock interest in LWR. In October 2001, LWR purchased from the Liberty officers and the Liberty Director their respective common stock interests in LWR. In connection with the purchase of his common stock interest in LWR, the Liberty Director waived the right to receive his deferred bonus. Upon the completion of these purchases, LWR became a wholly owned subsidiary of the Company.

In October 2000, Liberty restructured its ownership interests in certain assets into a new consolidated subsidiary. Liberty then sold a preferred interest in such subsidiary to Liberty's Chairman of the Board of Directors in exchange for approximately 540,000 shares of LSAT Series A common stock, approximately 3.3 million shares of LSAT Series B common stock and cash consideration of approximately $88 million. No gain or loss was recognized due to the related party nature of such transaction. The preferred interest has a liquidation value of $106 million and accrues dividends at 9% per annum payable quarterly in cash.

In September 2000, certain officers of Liberty purchased a 6% common stock interest in a subsidiary for $1.3 million. Such subsidiary owns an indirect interest in an entity that holds certain of Liberty's investments in satellite and technology related assets. Liberty and the officers entered into a shareholders agreement in which the officers could require Liberty to purchase, after five years, all or part of their common stock interest in exchange for Series A Liberty stock at the then fair market value. In addition, Liberty has the right to purchase, in exchange for Series A Liberty common stock, the common stock interests held by the officers at fair market value at any time. During 2001, two of the officers resigned their positions with the Company, and the Company purchased their respective interests in the subsidiary for the original purchase price plus 6% interest.

In August 2000, a subsidiary of Liberty sold shares of such subsidiary's Series A Convertible Participating Preferred Stock (the ''Preferred Shares'') to a director of Liberty, who was also the Chairman and Chief Executive Officer of such subsidiary, for a $21 million note. The Preferred Shares are convertible into 1.4 million shares of the subsidiary's common stock. The note is secured by the Preferred Shares or the proceeds from the sale of such shares and the director's personal obligations under such loan are limited. The note, which matures on August 1, 2005, may not be prepaid and interest on the note accrues at a rate of 7% per annum.

In May 2000, Liberty's President and Chief Executive Officer, certain officers of a subsidiary and another individual purchased an aggregate 20% common stock interest in a subsidiary for $800,000. This subsidiary owns a 7% interest in Jupiter Telecommunications Co., Inc. Liberty and the individuals entered into a shareholders agreement in which the individuals could require Liberty to purchase, after five years, all or part of their common stock interest in exchange for Series A Liberty common stock at its then fair market value. In addition, Liberty has the right to purchase, in exchange for Series A Liberty common stock, the common stock interests held by the officers at fair market value at any time. Liberty recognized $ 4 million and $3 million of compensation expense related to changes in the market value of its contingent liability to reacquire the common stock interests held by these officers during the years ended December 31, 2001 and 2000, respectively.

In connection with the AT&T Merger, Liberty paid two of its directors and one other individual, all three of whom were directors of TCI, an aggregate of $12 million for services rendered in connection with the AT&T Merger. Such amount is included in operating, selling, general and administrative expenses for the two months ended February 28, 1999 in the accompanying consolidated statements of operations.

Liberty is party to a call agreement with certain shareholders of Series B Liberty common stock, including the Chairman of the Board of Directors, which grants Liberty a right to acquire all of the Series B Liberty common stock held by such shareholders in certain circumstances. The price of acquiring such shares is generally limited to the market price of the Series A Liberty common stock, plus a 10% premium.

Transactions with AT&T and Other Related Parties

Certain subsidiaries of Liberty produce and/or distribute programming and other services to cable distribution operators (including AT&T) and others pursuant to long term affiliation agreements. Charges to AT&T are based upon customary rates charged to others. Amounts included in revenue for services provided to AT&T were $210 million, $243 million, $180 million and $43 million for the seven months ended July 31, 2001, the year ended December 31, 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively.

Prior to the Split Off Transaction, AT&T allocated certain corporate general and administrative costs to Liberty pursuant to an intergroup agreement. Management believes such allocation methods were reasonable and materially approximated the amount that Liberty would have incurred on a stand-alone basis. In addition, there are arrangements between subsidiaries of Liberty and AT&T and its other subsidiaries for satellite transponder services, marketing support, programming, and hosting services. These expenses aggregated $20 million, $37 million, $24 million and $6 million during the seven months ended July 31, 2001 (the period immediately prior to the Split Off Transaction), the year ended December 31, 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively.

On April 8, 1999, Liberty redeemed all of its outstanding 4½% convertible subordinated debentures. The debentures were convertible into shares of AT&T Liberty Media Group Class A common stock at a conversion price of $11.77, or 84.96 shares per $1,000 principal amount. Certain holders of the debentures had exercised their rights to convert their debentures and 29.2 million shares of AT&T Liberty Media Group tracking stock were issued to such holders. In connection with such issuance of AT&T Liberty Media Group tracking stock, Liberty recorded an increase to additional paid-in-capital of $354 million.

(11) Stock Options and Stock Appreciation Rights

Liberty

Effective with the Split Off Transaction, Liberty assumed from AT&T the Amended and Restated AT&T Corp. Liberty Media Group 2000 Incentive Plan and renamed it the Liberty Media Corporation 2000 Incentive Plan (the ''Liberty Incentive Plan''). Grants by TCI of options and options with tandem stock appreciation rights (''SARs'') with respect to shares of Liberty Media Group stock prior to 1999 were assumed by Liberty under the Liberty Incentive Plan. Grants of free standing SARs made under the Plan in 2000 and in 2001 prior to the Split Off Transaction were converted into options upon assumption by Liberty.

The Liberty Incentive Plan provides for awards to be made in respect of a maximum of 160 million shares of common stock of Liberty. Awards may be made as grants of stock options, SARs, restricted shares, stock units, cash or any combination thereof.

Effective February 28, 2001 (the ''Effective Date''), the Company restructured the options and options with tandem SARs to purchase AT&T common stock and AT&T Liberty Media Group tracking stock (collectively the ''Restructured Options'') held by certain executive officers of the Company. Pursuant to such restructuring, all Restructured Options became exercisable on the Effective Date, and each executive officer was given the choice to exercise all of his Restructured Options. Each executive officer who opted to exercise his Restructured Options received consideration equal to the excess of the closing price of the subject securities on the Effective Date over the exercise price. The exercising officers received (i) a combination of cash and AT&T Liberty Media Group tracking stock for Restructured Options that were vested prior to the Effective Date and (ii) cash for Restructured Options that were previously unvested. The executive officers used the cash proceeds from the previously unvested options to purchase restricted shares of AT&T Liberty Media Group tracking stock. Such restricted shares are subject to forfeiture upon termination of employment. The forfeiture obligation will lapse according to a schedule that corresponds to the vesting schedule applicable to the previously unvested options.

In addition, each executive officer was granted free-standing SARs equal to the total number of Restructured Options exercised. The free-standing SARs were tied to the value of AT&T Liberty Media Group tracking stock and will vest as to 30% in year one and 17.5% in years two through five. The free-standing SARs have an exercise price of $14.70 and had a fair value of $9.56 on the date of the grant. Upon completion of the Split Off Transaction, the free-standing SARs automatically converted to options to purchase Liberty Series A common stock. Prior to the Effective Date, the Restructured Options were accounted for using variable plan accounting pursuant to APB Opinion No. 25. Accordingly, the above-described transaction did not have a significant impact on Liberty's results of operations.

The following table presents the number and weighted average exercise price (''WAEP'') of certain options and options with tandem SARs to purchase Liberty Series A common stock granted to certain officers and other key employees of the Company.

	Liberty Series A common stock	WAEP
	amounts in thousands, except for WAEP	
Outstanding at January 1, 1999	78,158	$23.19
Granted	1,244	18.43
Exercised	(7,510)	5.02
Adjustment for transfer of employees	(1,158)	6.70
Outstanding at December 31, 1999	70,734	6.97
Granted	2,341	21.73
Exercised	(7,214)	5.69
Canceled	(479)	9.45
Options issued in mergers	12,134	4.75
Outstanding at December 31, 2000	77,516	7.20
Granted	49,087	14.72
Exercised	(50,315)	7.62
Canceled	(1,167)	16.88
Outstanding at December 31, 2001	75,121	11.69
Exercisable at December 31, 1999	14,341	
Exercisable at December 31, 2000	52,856	
Exercisable at December 31, 2001	23,494	
Vesting period	5 yrs	

The following table provides certain information about the Company's outstanding options at December 31, 2001.

No. outstanding options (000's)	Range of exercise prices	WAEP of outstanding options	Weighted average remaining life	No. of exercisable options (000's)	WAEP of exercisable options
17,566	$ 1.08-$ 5.00	$ 2.04	4.0 yrs	17,534	$ 2.04
1,180	$ 6.30-$ 9.95	$ 7.05	5.1 yrs	1,043	$ 7.00
53,336	$10.81-$14.75	$14.47	8.9 yrs	4,126	$12.25
3,039	$16.35-$28.40	$20.59	8.6 yrs	791	$20.11
75,121				23,494	

As permitted by Statement 123, the Company accounts for stock-based compensation pursuant to the intrinsic value method prescribed by APB Opinion No. 25 and its interpretations. In accordance with APB Opinion No. 25, Liberty accounts for stock options with tandem SARs granted to its employees as variable plan awards. Liabilities and the related compensation expense under these awards are subject to future adjustment based upon vesting provisions and the market value of the underlying security and, ultimately, on the final determination of market value when the rights are exercised. The Company accounts for stand-alone options as fixed plan awards, and accordingly, no compensation is recognized for these awards. If the Company had determined compensation expense based upon the grant-date fair value method pursuant to Statement 123, the Company's 2001 net loss and pro forma net loss per common share would have been $6,335 million and $2.45, respectively. The Company's net earnings (loss) and pro forma net earnings (loss) per share for 2000 and 1999 would not have been significantly different from what has been reflected in the accompanying consolidated financial statements as substantially all of Liberty's stock option awards had tandem SARs in 2000 and 1999.

In addition to the SARs issued in the aforementioned option restructuring, during 2001 and pursuant to the Liberty Incentive Plan, Liberty awarded 2,104,000 options to purchase Liberty Series A common stock to certain officers and key employees of the Company. Such options have exercise prices ranging from $12.40 to $16.35, vest as to 25% in each of years 2 through 5 after the date of grant, and had a weighted-average grant date fair value of $9.40.

The estimated fair values of the options noted above are based on the Black-Scholes model and are stated in current annualized dollars on a present value basis. The key assumptions used in the model for purposes of these calculations generally include the following: (a) a discount rate equal to the 10-year Treasury rate on the date of grant; (b) a 45% volatility factor, (c) the 10-year option term; (d) the closing price of the respective common stock on the date of grant; and (e) an expected dividend rate of zero.

Liberty Digital, Inc.

Deferred Compensation and Stock Option Plan. On September 8, 1999, Liberty Digital adopted the Deferred Compensation and Stock Appreciation Rights Plan for key executives. This plan is comprised of a deferred compensation component and SARs grants. The deferred compensation component provides participants with the right to receive an aggregate of nine and one half percent of the appreciation in the Liberty Digital Series A common stock market price over $2.46 subject to a maximum amount of $19.125. The SARs provide participants with the appreciation in the market price of the Liberty Digital Series A common stock above the maximum amount payable under the deferred compensation component. Obligations to the executives under both the deferred compensation and SAR elements of this plan are accounted for as variable award plans.

There are 19,295,193 shares subject to this plan all of which were granted in 1999 at an effective exercise price of $2.46 and a weighted average remaining life of 3 years at year end. The deferred compensation and SARs components vest 20% annually beginning with the first vesting date of December 15, 1999. Fully vested unexercised SARs total 3,046,188 at year-end. During the year ended December 31, 1999, there were no exercises, cancellations or expirations. During 2000 there were 3,859,038 options exercised, and 3,251,401 options cancelled. This plan terminates on December 15, 2003.

Subsequent to December 31, 2001, Liberty effected a short form merger with Liberty Digital whereby Liberty Digital shareholders received 0.25 shares of Liberty Series A common stock for each share of Liberty Digital Series A common stock held. Subsequent to this merger Liberty owns 100% of Liberty Digital. In connection with this merger, all outstanding Liberty Digital SARs were converted to Liberty SARs at the rate of 0.25 for 1. In addition, all amounts accrued under the deferred compensation plan were paid, and the deferred compensation plan was terminated.

During the first quarter of 2000, an executive officer of Liberty Digital elected to exercise certain of his SARs that had been granted by Liberty Digital. In order to satisfy Liberty Digital's obligations under the stock option agreement, LDIG and Liberty offered to issue, and the executive agreed to accept, a combination of cash and AT&T Liberty Media Group tracking stock in lieu of a cash payment. Accordingly, Liberty paid cash of $50 million and issued 5.8 million shares to the executive officer in the first quarter of 2001.

Starz Encore Group

Starz Encore Group Phantom Stock Appreciation Rights Plan. During 2000 and 1999 Starz Encore Group granted Phantom Stock Appreciation Rights (PSARS) to certain of its officers under this plan. PSARS granted under the plan generally vest over a five year period. Compensation under the PSARS is computed based upon a formula derived from the appraised fair value of the net assets of Starz Encore Group. All amounts earned under the plan are payable in cash.

Other

Certain of the Company's 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.

(12) Employee Benefit Plans

Liberty is the sponsor of the Liberty Media 401(k) Savings Plan (the ''Liberty 401(k) Plan''), which provides employees an opportunity for ownership in the Company and creates a retirement fund. The Liberty 401(k) Plan provides for employees to contribute up to 10% of their compensation to a trust for investment in Liberty common stock, as well as several mutual funds. The Company, by annual resolution of the Board, generally contributes up to 100% of the amount contributed by employees. Certain of the Company's subsidiaries have their own employee benefit plans. Contributions to all plans aggregated $10 million, $7 million, $3 million and $1 million for the years ended December 31, 2001 and 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively.

(13) Other Comprehensive Earnings

Accumulated other comprehensive earnings included in Liberty's consolidated balance sheets and consolidated statements of stockholder's equity reflect the aggregate of foreign currency translation adjustments and unrealized holding gains and losses on securities classified as available-for-sale. The change in the components of accumulated other comprehensive earnings, net of taxes, is summarized as follows:

	Foreign currency translation adjustment	Unrealized gains on securities	Accumulated other comprehensive earnings (loss), net of taxes
		amounts in millions	
Balance at January 1, 1999	$ 5	3,181	3,186
Other comprehensive earnings (loss)	(15)	885	870
Balance at February 28, 1999	$ (10)	4,066	4,056
Balance at March 1, 1999	$ —	—	—
Other comprehensive earnings	60	6,495	6,555
Balance at December 31, 1999	60	6,495	6,555
Other comprehensive loss	(202)	(6,750)	(6,952)
Balance at December 31, 2000	(142)	(255)	(397)
Other comprehensive loss	(359)	1,596	1,237
Balance at December 31, 2001	$(501)	1,341	840

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

	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
		amounts in millions	
Year ended December 31, 2001:			
Foreign currency translation adjustments	$ (588)	229	(359)
Unrealized holding losses on securities arising during period	(1,661)	648	(1,013)
Reclassification adjustment for losses realized in net loss	4,420	(1,724)	2,696
Cumulative effect of accounting change	(143)	56	(87)
Other comprehensive earnings	$ 2,028	(791)	1,237
Year ended December 31, 2000:			
Foreign currency translation adjustments	$ (334)	132	(202)
Unrealized holding losses on securities arising during period	(10,116)	4,001	(6,115)
Reclassification adjustment for gains realized in net earnings	(1,050)	415	(635)
Other comprehensive loss	$(11,500)	4,548	(6,952)
Ten months ended December 31, 1999:			
Foreign currency translation adjustments	$ 99	(39)	60
Unrealized holding gains on securities arising during period	10,733	(4,245)	6,488
Reclassification adjustment for losses realized in net loss	12	(5)	7
Other comprehensive earnings	$ 10,844	(4,289)	6,555
Two months ended February 28, 1999:			
Foreign currency translation adjustments	$ (25)	10	(15)
Unrealized holding gains arising during period	1,464	(579)	885
Other comprehensive earnings	$ 1,439	(569)	870

(14) Commitments and Contingencies

Starz Encore Group LLC, a wholly owned subsidiary of Liberty, provides premium programming distributed by cable, direct satellite, TVRO and other distributors throughout the United States. Starz Encore Group is obligated to pay fees for the rights to exhibit certain films that are released by various producers through 2014 (the ''Film Licensing Obligations''). The aggregate amount of the Film Licensing Obligations under these license agreements is not currently estimable because such amount is dependent upon the number of qualifying films released theatrically by certain motion picture studios as well as the domestic theatrical exhibition receipts upon the release of such qualifying films. Nevertheless, required aggregate payments under the Film Licensing Obligations could prove to be significant. Starz Encore Group's estimate, based on customer levels at December 31, 2001, of the future minimum obligation related to the Film Licensing Obligations for the five years after 2001 and thereafter are as follows (amounts in millions):

2002	$405
2003	224
2004	154
2005	88
2006	103
Thereafter	388

Liberty has guaranteed $619 million of the bank debt of Jupiter, an equity affiliate that provides broadband services in Japan. Approximately $343 million of such guaranteed amount is due and payable by Jupiter during the first quarter of 2002. Jupiter is currently negotiating the refinancing of substantially all of its long-term and short-term debt. Liberty anticipates that it and the other Jupiter shareholders will make equity contributions to Jupiter in connection with such refinancing, and that Liberty's share of such equity contributions will be approximately $450 million. Upon such refinancing, Liberty anticipates that its guarantee of Jupiter debt would be cancelled.

Liberty has also guaranteed various loans, notes payable, letters of credit and other obligations (the ''Guaranteed Obligations'') of certain other affiliates. At December 31, 2001, the Guaranteed Obligations aggregated approximately $170 million. Currently, Liberty is not certain of the likelihood of being required to perform under such guarantees.

Liberty leases business offices, has entered into pole rental and transponder lease agreements and uses certain equipment under lease arrangements. Rental expense under such arrangements amounts to $76 million, $50 million, $30 million and $9 million for the years ended December 31, 2001 and 2000, for the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively.

A summary of future minimum lease payments under noncancelable operating leases as of December 31, 2001 follows (amounts in millions):

Years ending December 31:	
2002	$ 70
2003	63
2004	52
2005	40
2006	31
Thereafter	115

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 minimum lease commitments will not be less than the amount shown for 2001.

Starz Encore Group LLC v. AT&T Broadband LLC and Satellite Services, Inc.

Starz Encore Group entered into a 25-year affiliation agreement in 1997 with TCI. TCI cable systems subsequently acquired by AT&T in the TCI merger operate under the name AT&T Broadband. Starz Encore Group receives fixed monthly payments in exchange for unlimited access to all of the existing Encore and STARZ! services. The payment from AT&T Broadband can be adjusted if AT&T acquires or disposes of cable systems. The affiliation agreement further provides that to the extent Starz Encore Group's programming costs increase above or decrease below amounts specified in the agreement, then AT&T Broadband's payments under the affiliation agreement will be increased or decreased in an amount equal to a proportion of the excess or shortfall. Starz Encore Group requested payment from AT&T Broadband of its proportionate share of excess programming costs during the first quarter of 2001 (which amount aggregated approximately $32 million for the year 2001). Excess programming costs payable by AT&T Broadband could be significantly larger in future years.

By letter dated May 29, 2001, AT&T Broadband has disputed the enforceability of the excess programming costs pass through provisions of the affiliation agreement and questioned whether the affiliation agreement, as a whole, is ''voidable.'' In addition, AT&T Broadband raised certain issues concerning interpretations of the contractual requirements associated with the treatment of acquisitions and dispositions. Starz Encore Group believes the position expressed by AT&T Broadband to be without merit. On July 10, 2001, Starz Encore Group initiated a lawsuit against AT&T Broadband and Satellite Services, Inc., a subsidiary of AT&T Broadband that is also a party to the affiliation agreement, in Arapahoe County District Court, Colorado for breach of contract. Starz Encore Group is seeking a judgment of specific performance of the contract, damages and costs.

On October 19, 2001, Starz Encore Group entered into a standstill and tolling agreement whereby the parties agreed to move the court to stay the lawsuit until August 31, 2002 to permit the parties an opportunity to resolve their dispute. This agreement provides that either party may unilaterally petition the court to lift the stay after April 30, 2002 and proceed with the litigation. The court granted the stay on October 30, 2001. In conjunction with this agreement, AT&T Broadband and the Company entered into various agreements whereby Starz Encore Group will indirectly receive payment for AT&T Broadband's proportionate share of the programming costs pass through for 2001.

Liberty has contingent liabilities related to legal 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.

(15) Information about Liberty's Operating Segments

Liberty is a holding company with a variety of subsidiaries and investments operating in the media, communications and entertainment industries. Each of these businesses is separately managed. Liberty identifies its reportable segments as those consolidated subsidiaries that represent 10% or more of its combined revenue and those equity method affiliates whose share of earnings or losses represent 10% or more of its pre-tax earnings or loss. Subsidiaries and affiliates not meeting this threshold are aggregated together for segment reporting purposes. The segment presentation for prior periods has been conformed to the current period segment presentation.

For the year ended December 31, 2001, Liberty had five operating segments: Starz Encore Group, Liberty Livewire, On Command Corporation (''On Command''), Telewest and Other. Starz Encore Group provides premium programming distributed by cable, direct-to-home satellite and other distribution media throughout the United States and is wholly owned and consolidated by Liberty. Liberty Livewire provides sound, video and ancillary post production and distribution services to the motion picture and television industries in the United States and Europe and is majority owned and consolidated by Liberty. On Command provides in-room, on-demand video entertainment and information services to hotels, motels and resorts primarily in the United States and is majority owned and consolidated by Liberty. Telewest, an equity method affiliate, operates and constructs cable television and telephone systems in the UK. Other includes Liberty's non-consolidated investments, corporate and other consolidated businesses not representing separately reportable segments.

The accounting policies of the segments that are also consolidated subsidiaries are the same as those described in the summary of significant accounting policies. Liberty evaluates performance based on the measures of revenue and operating cash flow (as defined by Liberty), appreciation in stock price and non-financial measures such as average prime time rating, prime time audience delivery, subscriber growth and penetration, as appropriate. Liberty believes operating cash flow is a widely used financial indicator of companies similar to Liberty and its affiliates, which 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 generally accepted accounting principles. Liberty generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

Liberty's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technology, distribution channels and marketing strategies.

Liberty utilizes the following financial information for purposes of making decisions about allocating resources to a segment and assessing a segment's performance:

	Consolidated Subsidiaries				Equity method affiliate		
	Starz Encore Group	Liberty Livewire	On Command	Other	Telewest	Eliminations	Total
	amounts in millions						
Performance Measures:							
Year ended December 31, 2001							
Revenue	$ 863	593	239	364	1,811	(1,811)	2,059
Operating cash flow	313	89	44	(69)	431	(431)	377
Year ended December 31, 2000							
Revenue	733	295	200	298	1,623	(1,623)	1,526
Operating cash flow	235	44	49	12	330	(330)	340
Ten months ended December 31, 1999							
Revenue	539	—	—	190	857	(857)	729
Operating cash flow	124	—	—	9	235	(235)	133
Two months ended February 28, 1999							
Revenue	101	—	—	134	207	(207)	235
Operating cash flow	41	—	—	6	52	(52)	47
Balance Sheet Information:							
As of December 31, 2001							
Total assets	2,861	915	433	44,330	9,209	(9,209)	48,539
Investments in affiliates	138	—	—	9,938	795	(795)	10,076
As of December 31, 2000							
Total assets	2,754	1,141	439	49,934	10,707	(10,707)	54,268
Investments in affiliates	155	8	2	20,299	377	(377)	20,464

The following table provides a reconciliation of segment operating cash flow to earnings before income taxes:

	New Liberty			Old Liberty
	Year ended December 31, 2001	Year ended December 31, 2000	Ten months ended December 31, 1999	Two months ended February 28, 1999
	amounts in millions			
Segment operating cash flow	$ 377	340	133	47
Stock compensation	(132)	950	(1,785)	(183)
Depreciation and amortization	(984)	(854)	(562)	(22)
Impairment of long-lived assets	(388)	—	—	—
Interest expense	(525)	(399)	(135)	(26)
Share of losses of affiliates	(4,906)	(3,485)	(904)	(66)
Nontemporary declines in fair value of investments	(4,101)	(1,463)	—	—
Gains (losses) on dispositions, net	(310)	7,340	4	14
Other, net	87	527	85	373
Earnings (loss) before income taxes and minority interest	$(10,882)	2,956	(3,164)	137

During the year ended December 31, 2001, Liberty derived 13.6% its total revenue from a single customer. Such revenue is attributable to the Starz Encore Group segment and the Other segment.

(16) Quarterly Financial Information (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
		amounts in millions		
2001:				
Revenue	$ 504	513	521	521
Operating loss	$(207)	(195)	(51)	(674)
Loss before cumulative effect of accounting change	$(697)	(2,125)	(215)	(3,711)
Net loss	$(152)	(2,125)	(215)	(3,711)
Pro forma basic and diluted loss before cumulative effect of accounting change per common share	$ (.27)	(.82)	(.08)	(1.43)
Pro forma basic and diluted net loss per common share	$ (.06)	(.82)	(.08)	(1.43)
2000:				
Revenue	$ 235	382	436	473
Operating income (loss)	$ (83)	67	147	305
Net earnings (loss)	$ 939	267	1,756	(1,477)
Pro forma basic and diluted net earnings (loss) per common share	$ .36	.10	.68	(.57)

CORPORATE DATA

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Stock Information

Liberty Media Corporation Series A and Series B Common Stock (ticker symbols L and LMC.B) are listed on the New York Stock Exchange.

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Financial Statements

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

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