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CAPITAL

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Annual Report
March, 2007

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Certain statements in this Annual Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. To the extent that statements in this Annual Report are not recitations of historical fact, such statements constitute forward-looking statements which, by definition, involve risks and uncertainties. In some cases, you can identify these statements by our use of forward-looking words such as “may,” “will,” “should,” “anticipate,” “estimate,” “expect,” “plan,” “believe,” “predict,” “potential,” “intend,” and other words of similar substance. In particular, statements under “Business,” “Risk-Factors,” “Properties,” “Legal Proceedings,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk” contain forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

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

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date made, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. When considering such forward-looking statements, you should keep in mind the factors described in “Risk Factors” and other cautionary statements contained in this Annual Report. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement. This Annual Report includes information concerning OpenTV Corp. and other public companies that file reports and other information with the SEC in accordance with the Securities Exchange Act of 1934. Information contained in this Annual Report concerning those companies has been derived from the reports and other information filed by them with the SEC. If you would like further information about these companies, the reports and other information they file with the SEC can be accessed on the Internet website maintained by the SEC at www.sec.gov. Those reports and other information are not incorporated by reference in this Annual Report.

Dear Fellow Shareholders:

As we discussed last year, Liberty Media's many assets and businesses, potential tax liabilities, and high degree of complexity have caused confusion among investors. This confusion has resulted in our stock trading at a discount to its implied net asset value and has hurt our ability to deliver full value to our shareholders.

In 2006, we made progress in addressing these challenges.

In May, we created two tracking stocks that attributed our assets between Liberty Interactive, a group led by QVC which includes our video and e-commerce assets, and Liberty Capital, a group which primarily represents our investment assets in media, telecom, and technology. These two tracking stocks increased transparency, focused capital efficiency, and gave investors a choice to invest in the stock they prefer.

We also articulated a strategy for each group. Liberty Interactive's strategy is to grow its existing businesses organically and to use its strong free cash flow to make accretive acquisitions and systematically shrink its equity. During 2006 Liberty Interactive had strong operational performance, made two strategic acquisitions, and repurchased nearly $1 billion of common stock. Liberty Capital's strategy is to monetize its non-core holdings tax-efficiently, simplify its assets, and gain greater focus as an operating business. During the year, Liberty Capital made good progress, agreeing to several tax-efficient stock-for-asset exchanges and asset sales including our stakes in News Corp, Court TV, On Command, IDT, CBS and OpenTV. While many of our non-controlled strategic investments have increased in value, it has become clear to us that consolidating, setting strategy for, developing synergies for, having access to the cash flows of, and setting appropriate capitalizations for our businesses is likely to yield the highest public market value for Liberty.

The market responded well to our efforts. Liberty Media's stocks posted a combined return of 30.8% for 2006 compared to a 15.8% gain for the S&P 500 (including dividends). While a good start, the market continues to undervalue our tracking stocks, and a 2007 goal is to further close that gap.

Operating Performance

Liberty Interactive Early in the second quarter, we provided three-year guidance[1] for Liberty Interactive of high single-digit to low double-digit revenue growth and low double-digit operating cash flow (OCF[2]) growth. For this year, performance dramatically exceeded our guidance with Liberty Interactive generating 13% revenue growth and a 19% increase in OCF. These results were driven by outstanding performance at QVC and enhanced by the acquisitions of Provide Commerce and BUYSEASONS.

QVC, Inc. QVC, the global leader in televised home shopping and centerpiece of Liberty Interactive, had another record year. The company produced revenue and OCF growth of 9% and 16% respectively, reflecting ongoing growth in all of its markets and across all product categories. QVC has developed a sustainable business model that features predictable and generally expanding margins, leveragable operating expenses, and high free cash flow.

Mike George took over as President and CEO early in 2006. He continues the company's philosophy of customer respect and brings strong retail and e-commerce expertise. We are fortunate to have him aboard, and the company had a very good year under his thoughtful leadership.

For 2006, QVC revenue was $7.1 billion and operating cash flow expanded to nearly $1.7 billion. Domestic revenue increased 7% to $5 billion, and domestic OCF grew 13% to $1.2 billion. The less penetrated international businesses, which include operations in the United Kingdom, Germany and Japan, grew faster. Overall, QVC International generated revenue of $2.1 billion, a 12% annual increase, and OCF of $426 million, a 26% increase. Online revenue continued to grow in importance and accounted for 20% of domestic revenue and 18% of total revenue in 2006. QVC.com is not only an efficient sales ordering mechanism, but increasingly a rich destination site allowing QVC to maintain a tighter relationship with its customers, and engage them in new ways.

QVC has a compelling value proposition: offer a carefully chosen selection of quality goods (much of them unique to QVC) in a variety of categories, at reasonable prices, with superior customer service. QVC nurtures a loyal customer group by presenting leading third-party and QVC-owned brands in an entertaining video retail environment that fosters a shopping community. This year QVC demonstrated the breadth of its television presence, airing 27 million unique products, and depth of its customer relationships, shipping more than 120 million units to 7.3 million customers in the United States. QVC celebrated its 20th birthday last October and shipped its one-billionth US package this March.

There is an enormous gap in perception between those who have purchased (who tend to have high appreciation for QVC) and those who have not (who tend to view home shopping more negatively). While the core business continues to show good growth prospects, management seeks to draw new customers to the QVC experience. We are considering geographic expansion, new distribution platforms, and branding and programming initiatives.

Other Liberty Interactive Businesses Liberty Interactive also completed the strategic acquisitions of Provide Commerce and BUYSEASONS, and these businesses produced excellent results. Provide Commerce, which we acquired in February 2006, experienced 21% revenue growth and substantially expanded operating margins. The company is carrying strong momentum into Mother's Day when it will partner with QVC to offer an array of flower and plant arrangements that it hopes will appeal to the companies' similar demographics.

BUYSEASONS, the largest online-only supplier of costumes, completed 2006 with 39% revenue growth and significantly improved operating margins. The company, which we acquired in August, experienced strong growth during its peak Halloween season and has carried that momentum into 2007.

The value of our investment in InterActiveCorp increased in 2006 while our Expedia investment declined. Together the value grew from $3.6 billion to $4.0 billion. While pleased with their performance and cognizant of our eventual control positions, it is not clear the market will accord us full value for these investments and we continue to explore strategic alternatives to maximize their value for our shareholders.

Liberty Capital As previously described, operating performance has been a smaller part of the story for the investments attributed to Liberty Capital. Over time, operating performance will become more important as we exchange and sell non-strategic investments for cash and controlled operating businesses. Nonetheless, this past year our controlled affiliates performed well.

Starz Entertainment 2006 was a year of important change at Starz.

When the year began, we offered a premium movie service that was primarily delivered on cable and satellite platforms. This continues to be a good business for Starz, and its performance is improving. Starz pay-tv subscribers increased 6% to 15.5 million while Encore subscribers grew 7% to 27.3 million. Total Starz revenue grew 3% to $1.03 billion, as subscriber growth more than offset a decline in the effective rate that resulted from certain of Starz's new fixed-rate affiliation agreements. Starz's OCF grew 9% for the year as revenue growth outpaced operating cost increases. During the year, programming cost increases moderated to 5% while SG&A declined due to a reduction in marketing activity with Starz's affiliates. OCF growth was particularly strong in the fourth quarter as programming expenses declined, a favorable trend that Starz management expects to continue in 2007.

However, television is changing. Rapidly evolving technology and new video distribution services are causing audience fragmentation. Starz management, led skillfully by Bob Clasen, understands the need to transform the business to offer customers compelling entertainment in a changing digital media world. Starz recognizes that it is in the business of audience aggregation regardless of platform. The 2006 transformation included: the launch of *Vongo*, an Internet subscription movie service; the acquisition of IDT Entertainment, including its television production and distribution, animated film production and home video distribution businesses and; the launch of Overture Films, a motion picture studio that will produce and distribute approximately ten full-length, theatrical films each year. Starz is now an integrated media company that produces a multitude of programming (including owned-content) for distribution on any platform.

2007 should be a year of continued growth for the core networks, further programming cost reductions, OCF growth and the successful integration of Starz' new businesses. We look forward to reporting on further Starz successes in our letter to you next year.

Other Liberty Capital Businesses Our 89%-owned subsidiary, TruePosition, continued its deployment of location networks for Cingular and T-Mobile USA, and continued exploring opportunities to offer a series of customer-facing, location-based services. WildBlue, our satellite provider of broadband Internet service, completed its first full year of offering its service for consumer use. The company has had very positive initial response, and as of the end of February 2007 had 130,000 subscribers. In December, Wildblue successfully launched its second satellite which became operational to provide service in March. GSN completed a solid year in 2006, meeting its financial objectives while enhancing its interactivity and the ability to monetize its content through additional platforms such as participation television and online games.

FUN Technologies, a casual and skill gaming company, in which we acquired majority ownership in March, contributed $42 million of revenue. Its 2006 performance was below expectations, due in part to general uncertainty following the passage of the Unlawful Internet Gambling Enforcement Act (UIGEA)[3]. The market value of FUN's stock declined and Liberty took an impairment charge of $113 million. We remain enthusiastic about this business. To date in 2007, FUN Games, through the integration of its SkillJam and WorldWinner units, has increased per-customer revenues and is exceeding expectations. Our objective is to strengthen FUN through collaboration with many of our programming and distribution affiliates, including GSN.

Acquisitions and Divestitures

We seek to purchase businesses that possess good customer value propositions, strong management teams, attractive financial metrics, and the potential to benefit from an association with our other businesses. During the year we considered numerous acquisition candidates, but our standards are high and the current generosity of the financial markets has given private equity a strong edge. While we believe in the power of financial leverage to reduce taxes, lower capital costs and drive equity returns, we have been reluctant to use as much debt for consolidated subsidiaries as private equity firms use with a segregated portfolio. We remain patient.

Liberty Interactive Despite current market conditions, Liberty Interactive completed two transactions in 2006.

In February, we completed the purchase of Provide Commerce. Provide operates e-commerce websites for perishable goods and offers a unique value proposition by delivering flowers under the Pro Flowers brand directly from grower to consumer. Under Bill Strauss's strong leadership, this business experienced almost 40% annual revenue growth in the five years preceding its acquisition and continued to show strong operating performance over the past year.

In August, we acquired BUYSEASONS, the owner of buycostumes.com, which is adroitly led by Jalem Getz.

We are pleased with both of these acquisitions which we believe were attractive on a stand-alone basis and hope will benefit from joining Liberty Interactive's other retail businesses.

Liberty Capital 2006 was a year in which we made significant progress in tax-efficiently converting passive and non-core investments into cash and operating businesses. Most importantly, in December we agreed to a §355 exchange of our News Corp shares for 38.5% of DirecTV, regional sports networks in Seattle, Denver and Pittsburgh, and $550 million in cash. We expect to close this transaction in mid-2007. While our News position has performed well over the years, as a non-controlled investment with a low tax basis, this investment has been discounted in value within the Liberty Capital share price. We expect to have increased financial flexibility as DirecTV is financially underleveraged and the shares that we are receiving have a significantly higher tax basis than the News shares we are exchanging. More importantly, DirecTV's operating strength and strategic position should accelerate our move to a more focused, stronger operating company. While Liberty has meaningful market capitalization, not since we were associated with TCI have we had meaningful market power. Whether we increase, decrease or maintain our stake in DirecTV, our financial, strategic and operational flexibility should be significantly enhanced by the completion of the News Corp transaction.

We also completed or announced several other Liberty Capital-related transactions. Since we wrote to you last year, we have completed the sale of our stakes in Court TV, OpenTV and On Command. We also completed the exchange of our IDT stock and interests for IDT Entertainment and announced the exchange of our CBS stock for cash and a station in Green Bay, Wisconsin.

These transactions will result in the tax-efficient disposition of about $13.9 billion of non-strategic assets for strategic operating assets and cash of approximately $1.7 billion. We expect to continue this trend in 2007 in an effort to further simplify Liberty Capital and create greater focus.

Capital Structure and Liquidity

Liberty Media's capital structure and liquidity are strong, allowing us to attribute significant financial resources to both Liberty Capital and Liberty Interactive.

Liberty Interactive At year end, Liberty Interactive had attributed cash and liquid investments exceeding $5 billion and debt of $6.4 billion. Excluding the value of our investment positions in InterActiveCorp and Expedia, attributed net debt of $5.5 billion equated to a multiple of 3.3x annual operating cash flow. Given the relatively predictable levels of cash flow generated by QVC and our other businesses, we now believe Liberty Interactive can comfortably sustain attributed debt levels of 4x to 5x OCF. We have significant liquidity to grow organically, complete acquisitions and shrink equity. During 2006, we put this flexibility to use by repurchasing $954 million of Liberty Interactive common stock.

Liberty Capital The Liberty Capital businesses are also in a position of significant financial strength. At year end, including the pending exchange of our News Corp stake, Liberty Capital had attributed to it $18.2 billion of public investments and derivatives and nearly $2.3 billion of cash and liquid investments. Together, at a value of $20.5 billion, these assets are only partially offset by the $4.7 billion face value of attributed debt. This net liquidity provides Liberty Capital with significant flexibility to grow its businesses and will play an important role in our strategic direction.

Historically, we have expressed reluctance to leverage our non-cash flow generating assets to shrink equity, even when we believe the equity is undervalued. However during 2006, Liberty Capital's cash balance increased by nearly $1 billion with more cash likely to be received in 2007. As a result, last month we announced a self tender for $1 billion of LCAPA shares.

How Are We Doing?

In our letter to you last year, we outlined our objectives and our motivations. Let's take a look at some of the statements from last year's annual report and see how things have progressed.

- **Focus on Underlying Asset Value:**

  2006 Statement: *We need to help the investment and analyst communities focus their attention on the underlying value of our assets. We believe that the most effective way to do this is to create a tracking stock structure that attributes our assets to two groups, Liberty Capital and Liberty Interactive.*

  Progress to Date: We have made good strides on this front with Liberty Interactive while Liberty Capital remains a work in progress. On the Liberty Interactive side, the creation of the tracking stocks afforded an opportunity for our shareholders to invest in a more pure-play interactive, multi-channel commerce business. QVC, a large and important part of the overall Liberty Media construct, is clearly the lynchpin of the Liberty Interactive assets. As a result, our investors have an opportunity to compare the Liberty Interactive trading value, comprised in large part of QVC, much more clearly with other commerce and internet companies. The implied trading multiple of QVC has improved, but continues to lag poorer-performing specialty retailers and e-tailers, particularly if the focus is on free cash flow generation. Liberty

Interactive still has attributed assets that, due to their non-controlled nature, are likely to continue to be discounted by investors. We will work to reduce this discount and believe our efforts, along with continued strong operating performance at QVC, Provide Commerce and BUYSEASONS and optimal capital structure management, will drive long-term growth in the Liberty Interactive common stock.

On the Liberty Capital side, we have made significant progress. At the time we issued the trackers we stated that it would take some time to convert Liberty Capital's attributed assets to a smaller group of strategic, controlled, operating assets. It is this conversion, we believe, that will ultimately cause our investors to focus more clearly on the underlying value of the assets attributed to Liberty Capital. Since the issuance of the Liberty Capital tracking stock, we have completed asset sales and exchanges that demonstrate significant strides toward tax-efficiently simplifying the group of assets attributed to Liberty Capital. This simplification represents a major step toward giving our investors the ability to focus more crisply on this group of assets. We will continue this simplification process in 2007.

- **Liberty Interactive and QVC as Attractive Investment Vehicles:**

  2006 Statement: *In defining the tracking stock groups, we decided to focus on our largest operating business and highest performer, QVC. With dominant share in video commerce, exceptional free cash flow, and substantial international and e-commerce growth potential, we believe a well-positioned ''interactive'' vehicle can achieve a high multiple that fully reflects its intrinsic value.... We believe this group, leveraged at three to four times net debt, presents an attractive investment vehicle.*

  Progress to Date: As discussed above, QVC has an exceptional track record of top-notch execution for over twenty years. The creation of the tracking stock structure has not only given investors a chance to invest more directly in QVC, it has given Liberty a vehicle through which to more clearly present the formula for QVC's success. We hosted a well-attended and well-received investor day at QVC's headquarters in Westchester, Pennsylvania. We believe this and other investor communications clarified the QVC value proposition for many investors and analysts and contributed to an increased level of interest in the business.

  As QVC's superior financial metrics become more transparent to investors in Liberty Interactive common stock, it becomes more readily comparable to other specialty retailers and ecommerce companies. We believe QVC shines in comparison and we were aggressive about putting the company's strong cash flow to work in buying Liberty Interactive stock at what we believed to be very attractive valuations. We repurchased nearly $1 billion of LINTA equity in 2006, and yet the group's net debt remained at a modest 3.3x annual operating cash flow.

We will continue to evaluate alternative uses of Liberty Interactive's significant free cash flow and expanded borrowing capacity and believe a systematic equity reduction program combined with ongoing organic cash flow growth and strategic acquisitions presents a winning formula for continued strong returns for our shareholders.

- **Redirecting Liberty Capital:**

  2006 Statement: *Nonetheless, Liberty Capital will need to trade out of many of its passive equity positions and acquire new businesses or expand its existing businesses. The redeployment of this large equity base represents the greatest opportunity to re-direct the Liberty Capital Group.*

  Progress to Date: As outlined above, it has been an active year and the transactions we have completed show great progress toward redirecting the group. We have monetized a number of non-strategic assets and reached agreement to acquire several businesses, most notably 38.5% of DirecTV, that will anchor Liberty Capital's strategic foundation going forward. Frankly, we got much more done in 2006 than either of us would have guessed possible a year ago. In 2007 we expect to further streamline Liberty Capital's attributed assets and make strategic acquisitions around our core operating companies.

- **Financial Flexibility:**

  2006 Statement: *We believe this strategy gives us significant flexibility in capital structure and investment opportunities....We believe we will be in a much stronger position to actively manage the balance sheets of both groups. This should enable us to fund growth initiatives while repurchasing equity at prices and under circumstances we deem appropriate.*

  Progress to Date: As previously noted, we systematically conducted open market purchases of Liberty Interactive common stock throughout the year. This allowed us to repurchase 7.3% of the outstanding LINTA shares during the year at a weighted average price of $18.49 per share. This is a formula that we believe is sustainable and we will continue to pursue as valuations warrant. These repurchases do not, however, preclude us from reinvesting in our existing businesses or making strategic acquisitions and, in fact, we made two such purchases in 2006. We will continue to seek additional strategic transactions to attribute to Liberty Interactive.

  The strengthening of our balance sheet through asset sales and exchanges in 2006 allowed us to initiate a self-tender offer for $1 billion of Liberty Capital common stock in early 2007. Such action could be repeated in the future should similar circumstances arise. Additionally, we will continue to seek acquisitions of businesses that we believe are strategically important to the ongoing assets attributed to Liberty Capital.

- **The Bottom Line:**

  2006 Statement: *While we think that the peak market capitalization we attained in 2000 was unrealistic we also believe the combined value...today is too low...We believe that it puts us in a good position to simplify Liberty Capital and create new avenues for growth, while expanding Liberty Interactive through organic growth, strategic acquisitions and business development.*

  Progress to Date: We are making progress on this front and as of the writing of this letter the combined market capitalization of Liberty Capital and Liberty Interactive has reached $30 billion, up from $23 billion when we announced the tracking stocks, despite the repurchase of $1 billion of stock. And we believe we can do more. Most observers believe that Liberty Capital common stock continues to trade at a discount to its underlying asset value (and we agree). Similarly, Liberty Interactive common stock trades at a level that implies an operating cash flow multiple of QVC well below that of its peers. We will continue to undertake strategies that we believe will drive value for our shareholders of both groups with the goal of continuing the stock price momentum that was generated in 2006.

2007 and Beyond

We are pleased with the progress we made in 2006 and hope you are too. We had more activity than in recent years and believe it was productive. While significant strategic questions remain, we have better options and more ability to accomplish our goals.

While in 2007, QVC, Starz, Provide, FUN, BUYSEASONS, TruePosition, and all our controlled affiliates focus on their operating growth and efficiency, we will continue to work on setting a robust strategic direction, simplifying our portfolio, making strategic acquisitions, managing our balance sheet and creating a more focused operating company.

We are enthused by our prospects and confident that Liberty Media is continuing down the right path to maximize shareholder returns. Thank you for your support.

Very truly yours,

Gregory B. Maffei
President and Chief Executive Officer

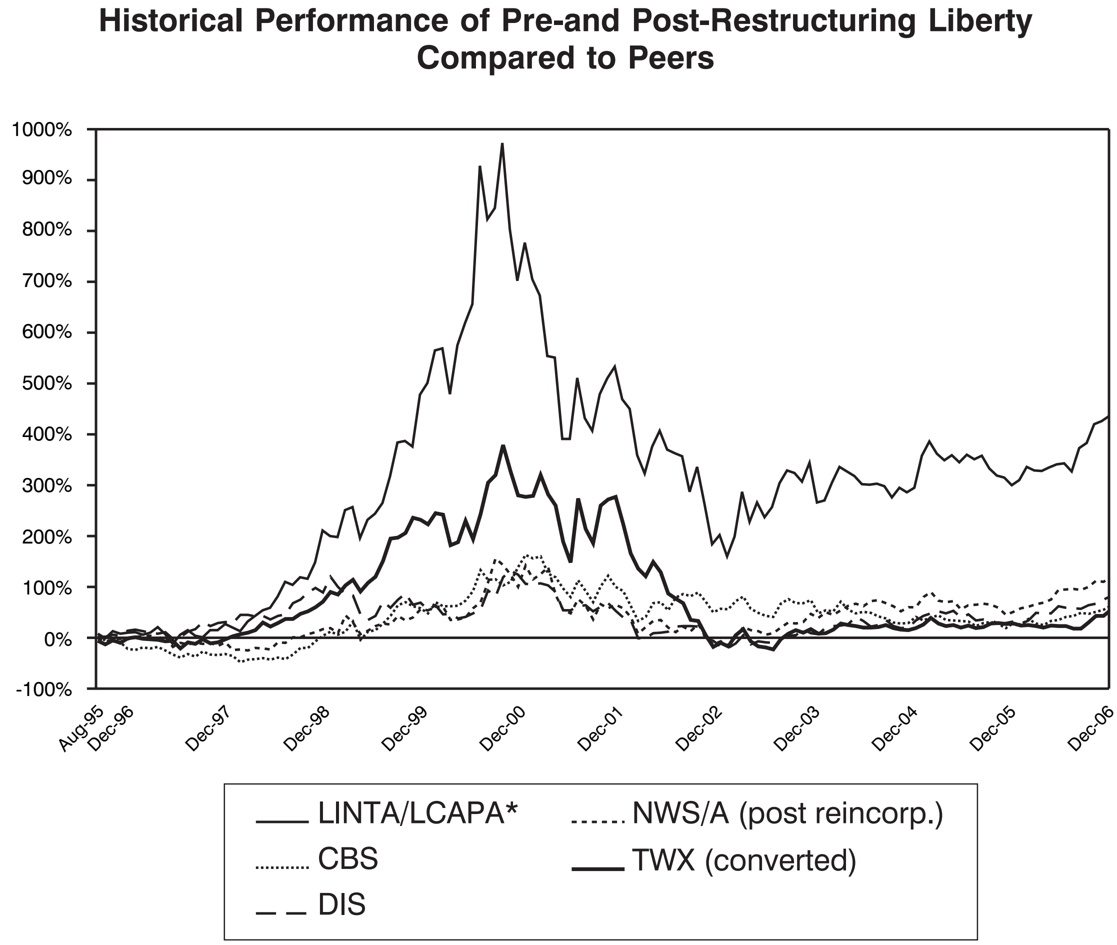
John C. Malone
Chairman of the Board

[1] We issue long-term guidance as we do not believe quarterly guidance is meaningful. We reiterated this same guidance throughout 2006 and do so again with this letter.

[2] Liberty defines operating cash flow (OCF) as revenue less cost of sales; operating expenses; and selling, general and administrative expenses (excluding stock and other equity-based compensation). OCF, as defined by Liberty, excludes depreciation and amortization, stock and other equity-based compensation and restructuring and impairment charges that are included in the measurement of operating income pursuant to U.S. generally accepted accounting principles (GAAP). Liberty believes OCF is an important indicator of the operational strength and performance of its businesses, including the ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. Because OCF is used as a measure of operating performance, Liberty views operating income as the most directly comparable GAAP measure. OCF is not meant to replace or supersede operating income or any other GAAP measure, but rather to supplement the information to present investors with the same information as Liberty's management considers in assessing the results of operations and performance of its assets. Please see footnote 18 to our accompanying consolidated financial statements for a reconciliation of OCF to earnings (loss) before income taxes and minority interest.

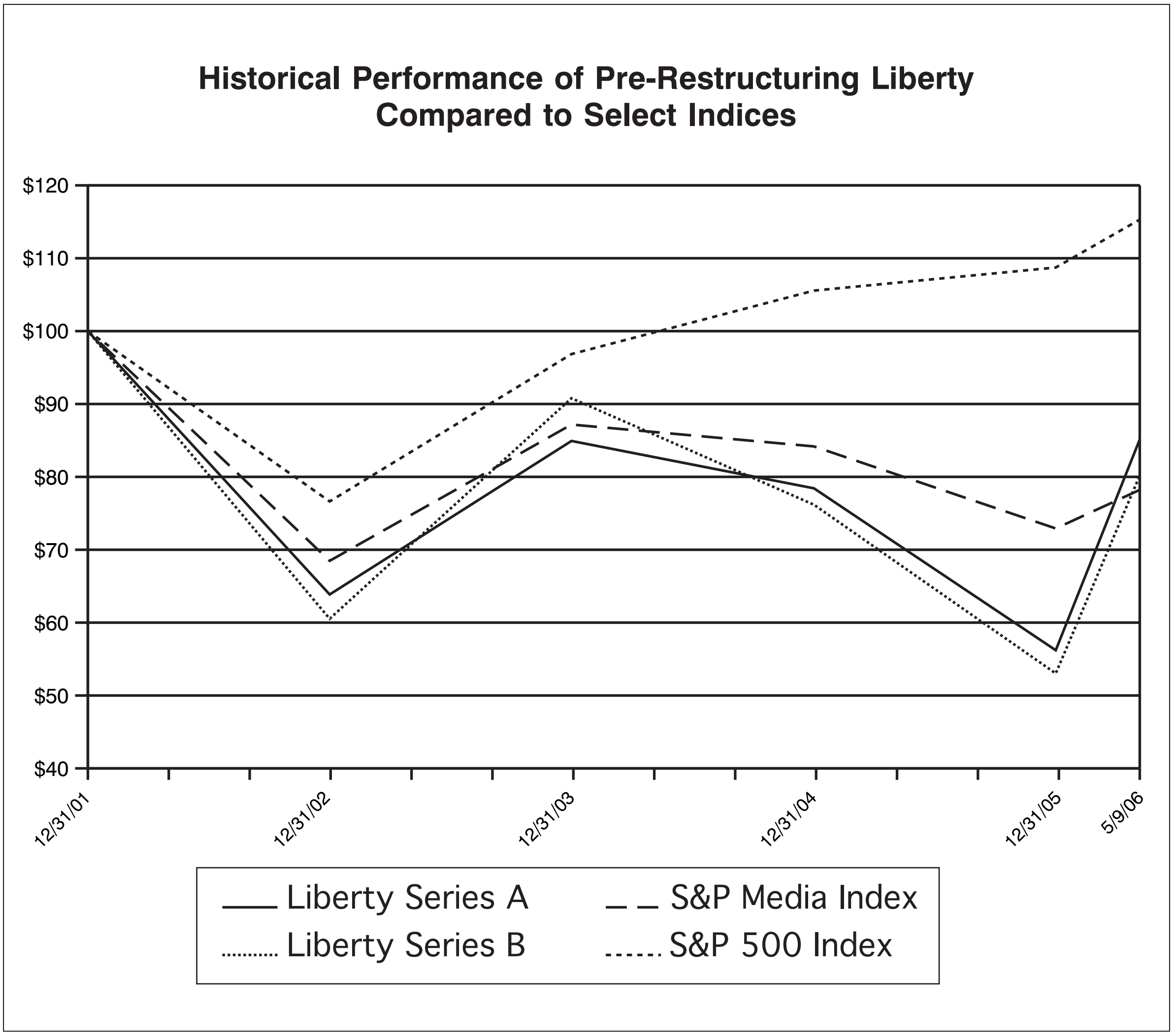
[3] While FUN does not operate any gambling websites, after the law passed FUN elected not to accept advertising from certain gambling-related advertisers.

The following graph compares the historical combined performance of the Liberty Capital Series A and Liberty Interactive Series A tracking stocks and their predecessor securities from August 1995 through December 31, 2006, in comparison to our peers (News Corporation, CBS Corporation, The Walt Disney Company and Time Warner Inc.). The predecessor securities are comprised of (1) Tele-Communications Inc. Series A Liberty Media Group tracking stock (Nasdaq trading symbol: LBTYA) for the period from August 1995 until March 1999, (2) AT&T Corp. Class A Liberty Media Group tracking stock (NYSE trading symbol: LMG.A) for the period from March 1999 until August 2001, and (3) the former Liberty Media Corporation Series A common stock (NYSE trading symbol: originally LMC.A but subsequently changed to L) for the period from August 2001 until the May 9, 2006 restructuring (in which such stock was exchanged for our Liberty Capital Series A and Liberty Interactive Series A tracking stocks).



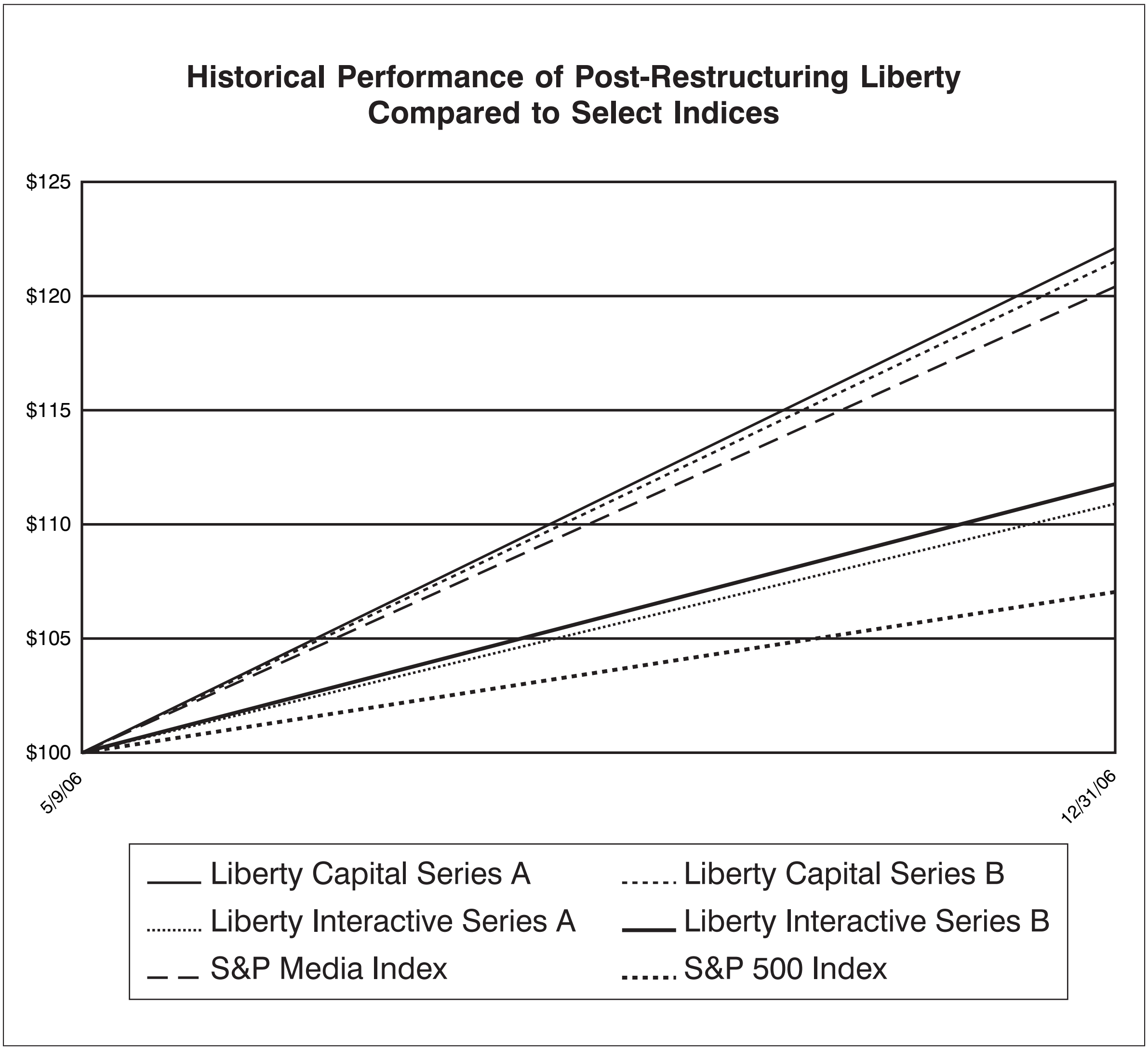
*Including predecessor securities

The following graph compares the yearly percentage change in the cumulative total shareholder return on the former Liberty Media Corporation Series A (NYSE trading symbol: L) and Series B common stock (NYSE trading symbol: LMC.B) from December 31, 2001 through the May 9, 2006 restructuring, in comparison to the S&P 500 Media Index, which reflects the performance of companies in our peer group, and the S&P 500 Index. We have included in the returns presented below the estimated values attributable to the dividends paid in connection with the June 2004 spin off of Liberty Media International Inc. and the July 2005 spin off of Discovery Holding Company.



	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	5/9/2006
Liberty Series A	100.00	63.86	84.93	78.43	56.21	85.64
Liberty Series B	100.00	60.53	90.79	76.18	53.03	80.66
S&P Media Index	100.00	68.48	87.18	84.18	72.92	78.31
S&P 500 Index	100.00	76.63	96.85	105.56	108.73	115.42

The following graph compares the percentage change in the cumulative total shareholder return on each of the Liberty Capital Series A and Series B tracking stocks and the Liberty Interactive Series A and Series B tracking stocks from May 10, 2006 through December 31, 2006, in comparison to the S&P 500 Media Index and the S&P 500 Index.



	5/10/2006	12/31/2006
Liberty Capital Series A	100.00	122.09
Liberty Capital Series B	100.00	121.50
Liberty Interactive Series A	100.00	110.90
Liberty Interactive Series B	100.00	111.76
S&P Media Index	100.00	120.41
S&P 500 Index	100.00	107.03

LIBERTY MEDIA CORPORATION

COMPANY PROFILE

Liberty Media Corporation is a holding company that owns interests in a broad range of electronic retailing, media, communications and entertainment businesses. Those interests are attributed to two tracking stock groups: Liberty Interactive, which includes Liberty Media's interests in QVC, Provide Commerce, BUYSEASONS, IAC/InterActiveCorp and Expedia, and Liberty Capital, which includes all of Liberty Media's assets that are not attributed to Liberty Interactive, including Liberty Media's interests in Starz Entertainment and News Corporation.

The following table sets forth Liberty Media'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 Media and, to the extent known by Liberty Media, other holders. In some cases, Liberty Media's interest may be subject to buy/sell procedures, repurchase rights or, under certain circumstances, dilution.

LIBERTY CAPITAL

ENTITY	SUBSCRIBERS AT 12/31/06 (000's)	SUBSCRIBERS AT 12/31/05 (000's)	SUBSCRIBERS AT 12/31/04 (000's)	YEAR LAUNCHED	ATTRIBUTED OWNERSHIP AT 12/31/06
OPERATING BUSINESSES					
GSN	60,887	57,805	56,411	1994	50%
Starz Entertainment LLC					100%
Encore	27,323	25,784	24,457	1991	
MOVIEplex	14,696	11,892	3,925	1995	
Thematic Multiplex (aggregate units)(1)	150,027	140,459	130,349		
Love Stories				1994	
Westerns				1994	
Mystery				1994	
Action				1994	
True Stories				1994	
WAM!				1994	
Starz	15,521	14,082	14,108	1994	
Starz Edge(1)				1996	
Starz InBlack(1)				1997	
Starz Kids & Family(1)				1999	
Starz Cinema(1)				1999	
Starz Comedy(1)					

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ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/06
	OPERATING BUSINESSES	
Hallmark Entertainment Investments Co.	Hallmark Entertainment Investments Co. owns 80.2% of Crown Media Holdings, Inc. Class A common stock and 100% of the Class B common stock, representing 96.1% of the total outstanding voting power of Crown Media Holdings, Inc. Stockholders of Hallmark Entertainment Investments Co. are Hallmark Entertainment Holdings, Inc., Liberty Media Corporation, J.P. Morgan Partners (BHCA), L.P. and National Interfaith Cable Coalition, Inc. (''NICC'').	11%[(2)]
MacNeil/Lehrer Productions	Produces ''NewsHour'' with Jim Lehrer and Robert MacNeil in addition to documentaries, Web sites, interactive DVD's, civic engagement projects and educational programs.	67%
News Corporation (NYSE: NWS, NWS.A)	Entertainment company operating in eight industry segments: filmed entertainment; television; cable network programming; direct broadcast satellite television; magazines and inserts; newspapers; book publishing; and other. The activities of News Corporation are conducted principally in the United States, Continental Europe, the United Kingdom, Australia, Asia and the Pacific Basin.	16%[(3)]

LIBERTY CAPITAL

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/06
	OPERATING BUSINESSES	
Current Communications Group	Developing Broadband over Power Line (BPL) technology and solutions through its two subsidiaries, Current Communications and Current Technologies.	16%
FUN Technologies Inc. (TSX/AIM: FUN)	Online and interactive casual games provider. Provides cutting-edge gaming systems to top distribution partners around the world.	53%
GoPets, Ltd.	Virtual community of pets that interact with each other and other users all over the world. Currently in an open beta phase in fifteen languages and eight territories around the world.	25%
On Command Corporation	Provider of in-room interactive entertainment, Internet access, business information and guest services for the lodging industry.	100%[4]
Sling Media	Consumer hardware and application company that turns any Internet-connected PC, Mac, or mobile device into your home television.	6%
TruePosition, Inc.	Provider of wireless location technology and services.	89%
Wildblue Communications, Inc.	Ka-band satellite network focused on providing broadband services to homes and small offices in North America.	32%

LIBERTY CAPITAL

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/06
PUBLICLY TRADED INVESTMENTS—FINANCIAL		
CBS Corporation	Mass media company serving audiences and advertisers domestically and internationally. Operates in virtually every field of media and entertainment, including broadcast television, cable television, local television, television production and syndication, radio, advertising on out-of-home media, publishing, digital media and comsumer products.	1%[(5)]
Embarq Corporation (NYSE: EQ)	Provides a suite of communications services to customers in its local services territories. Offers local and long distance voice, data, high speed internet, wireless and entertainment services.	3%
Motorola, Inc. (NYSE: MOT)	Provider of integrated communications solutions and embedded electronic solutions.	3%
priceline.com, Incorporated (Nasdaq: PCLN)	Provider of e-commerce service allowing consumers to make offers on products and services.	1%
Sprint Nextel (NYSE: S)	Offers a comprehensive range of communications services bringing mobility to consumer, business and government customers.	3%[(6)]
Time Warner Inc. (NYSE: TWX)	Media and entertainment company whose businesses include filmed entertainment, interactive services, television networks, cable systems, music and publishing.	4%
Viacom Inc. (NYSE: VIA)	Global media company, with positions in broadcast and cable television, radio, outdoor advertising, and online. Brands include CBS, MTV, Nickelodeon, Nick at Nite, VH1, BET, Paramount Pictures, Infinity Broadcasting, Viacom Outdoor, UPN, TV Land, Comedy Central, CMT: Country Music Television, Spike TV, Showtime, Blockbuster, and Simon & Schuster.	1%

LIBERTY INTERACTIVE

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/06
	OPERATING BUSINESSES	
BUYSEASONS, Inc.	Online retailer of costumes and accessories	100%
Provide Commerce	E-commerce market place providing a collection of branded websites each offering high quality, perishable products shipped directly from the supplier to the consumer and designed specifically around the way consumers shop.	100%
QVC, Inc.	An electronic retailing leader, marketing a wide variety of brand name products in such categories as home furnishing, licensed products, fashion, beauty, electronics and fine jewelry.	100%

LIBERTY INTERACTIVE

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/06
	PUBLICLY TRADED INVESTMENTS—STRATEGIC	
Expedia, Inc. (Nasdaq: EXPE)	Empowers business and leisure travelers with the tools and information needed to research, plan, book and experience travel. It also provides wholesale travel to offline retail travel agents. Expedia's main companies include: Expedia.com, Hotels.com, Hotwire, Expedia Corporate Travel, TripAdvisor and Classic Vacations. Expedia's companies operate internationally in Canada, the UK, Germany, France, Italy, the Netherlands and China.	20%[7]
IAC/InteractiveCorp (Nasdaq:IACI)	Operates businesses in sectors being transformed by the internet, online and offline. IAC is comprised of HSN; Cornerstone Brands, Inc.; HSE24; Shoebuy.com; Ticketmaster; Lending Tree; RealEstate.com; ServiceMagic; Match.com; Entertainment Publications; Interval International; Ask.com; Citysearch; Evite; Gifts.com; iBuy; Pronto; and CollegeHumor.	24%[8]

(1) Digital services.

(2) Liberty Media Corporation owns an approximate indirect 11% economic ownership in Crown Media Holdings, Inc. (NASDAQ: CRWN).

(3) Liberty's voting interest in News Corp. is approximately 19%. On December 22, 2006 Liberty announced that it entered into a definitive agreement with News Corporation to exchange Liberty's 16.3% stake in News for a News Corp. subsidiary holding a 38.5% stake in DIRECTV Group, Inc., regional sports networks in Denver, Pittsburgh, and Seattle, and cash.

(4) On December 13, 2006, Liberty entered into an agreement with Lodgenet Entertainment Corporation to sell its ownership of OnCommand Corporation for a combination of stock and cash.

(5) On February 13, 2007, Liberty announced a transaction in which Liberty will exchange its 7,591,249 CBS common shares for a newly created corporate subsidiary of CBS which holds CBS' Green Bay owned television station and cash.

(6) Less than 1% of voting power. Liberty beneficially owns shares of Sprint Nextel common stock and instruments convertible into Sprint Nextel common stock.

(7) Liberty owns approximately 20% of Expedia common stock representing approximately 52% voting interest, however, the Chairman of Expedia currently has the authority to vote these shares.

(8) Liberty owns approximately 24% of IAC common stock representing approximately 55% voting interest, however, the Chairman and CEO of IAC currently has the authority to vote these shares.

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

Market Information

We issued our tracking stocks, Liberty Capital Series A and Series B common stock (LCAPA and LCAPB) and Liberty Interactive Series A and Series B common stock (LINTA and LINTB), on May 10, 2006. Holders of our predecessor's common stock received .25 of a share of LINTA and .05 of a share of LCAPA in exchange for each share of Series A common stock held and .25 of a share of LINTB and .05 of a share of LCAPB in exchange for each share of Series B common stock held. Each series of our tracking stock trades on the Nasdaq National Market. Prior to May 10, 2006, our two series of common stock, Series A and Series B, traded on the New York Stock Exchange under the symbols L and LMC.B, respectively. The following table sets forth the range of high and low sales prices of shares of our common stock for the years ended December 31, 2006 and 2005.

	Series A (L)		Series B (LMC.B)	
	High	Low	High	Low
2005				
First quarter	$10.93	9.97	11.60	10.30
Second quarter	$10.64	10.01	11.06	10.20
Third quarter through July 20, 2005*	$10.28	9.89	10.75	10.00
July 21 through September 30, 2005*	$ 8.90	7.98	10.15	8.12
Fourth quarter	$ 8.18	7.59	8.56	7.55
2006				
First quarter	$ 8.44	7.73	8.50	7.80
Second quarter through May 9, 2006	$ 8.76	8.20	8.90	8.20

	Liberty Capital			
	Series A (LCAPA)		Series B (LCAPB)	
	High	Low	High	Low
2006				
Second quarter—May 10, 2006 through June 30, 2006	$83.95	77.00	87.99	79.26
Third quarter	$87.02	80.01	87.25	80.73
Fourth quarter	$98.80	83.32	99.46	84.34

	Liberty Interactive			
	Series A (LINTA)		Series B (LINTB)	
	High	Low	High	Low
2006				
Second quarter—May 10, 2006 through June 30, 2006	$20.25	16.28	20.09	15.98
Third quarter	$20.60	15.84	20.50	16.00
Fourth quarter	$23.29	19.85	23.13	19.61

* Our spin off of DHC was completed on July 21, 2005.

Holders

As of January 31, 2007, there were approximately 68,000 and less than 1,000 beneficial holders of our Liberty Capital Series A and Series B common stock, respectively, and approximately 74,000 and less than 1,000 beneficial holders of our Liberty Interactive Series A and Series B common stock, respectively.

Dividends

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

Securities Authorized for Issuance Under Equity Compensation Plans

Information required by this item is incorporated by reference to our definitive proxy statement for our 2007 Annual Meeting of shareholders.

Purchases of Equity Securities by the Issuer

	Liberty Interactive Series A Common Stock			
Period	**(a) Total Number of Shares Purchased**	**(b) Average Price Paid per Share**	**(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be purchased Under the Plans or Programs(1)**
October 2006	5,129,246	$ 21.22	5,129,246	$ 160.5 million
November 2006	3,443,499	$ 22.51	3,443,499	$ 1,082.9 million
December 2006	1,578,700	$ 22.66	1,578,700	$ 1,047.2 million
Total	10,151,445		10,151,445	

(1) Our program to repurchase shares of Liberty Interactive common stock was approved by our board of directors and disclosed in our 2006 Annual Proxy dated April 7, 2006. In November 2006, our board of directors increased the aggregate amount of Liberty Interactive common stock that can be repurchased from $1 billion to $2 billion. We may alter or terminate the program at any time.

Selected Financial Data.

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

	December 31,				
	2006	**2005**	**2004**	**2003(2)**	**2002**
	(amounts in millions)				
Summary Balance Sheet Data(1):					
Investments in available-for-sale securities and other cost investments	$21,622	18,489	21,834	19,544	14,156
Investment in affiliates	$ 1,842	1,908	784	745	3,420
Assets of discontinued operations	$ 512	516	6,258	9,741	8,985
Total assets	$47,638	41,965	50,181	54,225	40,324
Long-term debt(3)	$ 8,909	6,370	8,566	9,417	3,646
Stockholders' equity	$21,633	19,120	24,586	28,842	24,682

	Years ended December 31,				
	2006	**2005**	**2004**	**2003(2)**	**2002**
	(amounts in millions, except per share amounts)				
Summary Statement of Operations Data(1):					
Revenue	$8,613	7,646	6,743	2,934	1,010
Operating income (loss)(4)	$1,021	944	788	(841)	189
Realized and unrealized gains (losses) on financial instruments, net	$ (279)	257	(1,284)	(661)	2,127
Gains (losses) on dispositions, net	$ 607	(361)	1,411	1,128	(526)
Nontemporary declines in fair value of investments	$ (4)	(449)	(129)	(22)	(5,793)
Earnings (loss) from continuing operations(4)	$ 709	(43)	105	(1,144)	(2,783)
Basic and diluted earnings (loss) from continuing operations per common share(5):					
Liberty common stock	$ .07	(.02)	.04	(.42)	(1.07)
Liberty Capital common stock	$ .24	—	—	—	—
Liberty Interactive common stock	$ .73	—	—	—	—

(1) In the fourth quarter of 2006, we executed agreements to sell our interests in OpenTV Corp. ("OPTV") and Ascent Entertainment Group ("AEG"), which is the parent company of On Command Corporation, in separate transactions to unrelated third parties. Our consolidated financial statements and selected financial information have been prepared to reflect OPTV and AEG as discontinued operations. Accordingly, the assets and liabilities, and revenue, costs and expenses of OPTV and AEG have been excluded from the respective captions in our consolidated financial statements and selected financial information and have been reported under the heading of discontinued operations. See note 5 to our consolidated financial statements for additional information regarding OPTV and AEG.

(2) On September 17, 2003, we completed our acquisition of Comcast Corporation's approximate 56% ownership in QVC, Inc. for approximately $7.9 billion, comprised of cash, floating rate senior notes and shares of our Series A common stock. When combined with our previous ownership of approximately 42% of QVC, we owned 98% of QVC upon consummation of the transaction, which is deemed to have occurred on September 1, 2003, and we have consolidated QVC's financial position and results of operations since that date.

(3) Excludes the call option portion of our exchangeable debentures. See note 9 to our consolidated financial statements.

(4) Our 2003 operating loss and loss from continuing operations include a $1,352 million goodwill impairment charge related to our wholly-owned subsidiary, Starz Entertainment, LLC (formerly known as Starz Entertainment Group LLC).

(5) Basic and diluted earnings per share have been calculated for Liberty Capital and Liberty Interactive common stock for the period from May 10, 2006 to December 31, 2006. EPS has been calculated for Liberty common stock for all periods prior to May 10, 2006.

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

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

Overview

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

In 2006, we began implementing a strategy to convert passive investments into operating businesses. We exchanged our cost investment in IDT Corporation for IDT's subsidiary IDT Entertainment, and we signed an agreement with News Corporation to exchange our investment in News Corporation for a News Corporation subsidiary which would own News Corporations' 38.5% interest in The DirecTV Group, three regional sports television networks and cash. In addition, we acquired controlling interests in Provide Commerce, Inc., FUN Technologies, Inc. and BuySeasons, Inc.

Our "Corporate and Other" segment includes our other consolidated subsidiaries and corporate expenses. Our other consolidated subsidiaries include Provide Commerce, Inc., Starz Media, LLC, FUN Technologies, Inc., TruePosition, Inc. and BuySeasons, Inc. Provide, which we acquired in February 2006, operates an e-commerce marketplace of websites for perishable goods, including flowers, gourmet foods, fruits and desserts. Starz Media, which we acquired in the third quarter of 2006, is focused on developing, acquiring, producing and distributing live-action, computer-generated and traditional television animated productions for the home video, film, broadcast and direct-to-consumer markets. FUN, in which we acquired a 55% common stock interest in March 2006, operates websites that offer casual gaming, sports information and fantasy sports services. TruePosition provides equipment and technology that deliver location-based services to wireless users. BuySeasons, which we acquired in August 2006, operates BuyCostumes.com, an on-line retailer of costumes, accessories, décor and party supplies.

In addition to the foregoing businesses, we hold an approximate 21% interest in Expedia, Inc., which we account for as an equity method investment, and we continue to maintain significant investments and related derivative positions in public companies such as News Corporation, IAC/InterActiveCorp, Time Warner Inc. and Sprint Nextel Corporation, which are accounted for at their respective fair market value and are included in corporate and other.

Tracking Stocks

On May 9, 2006, we completed a restructuring pursuant to which we were organized as a new holding company, and we became the new publicly traded parent company of Liberty Media LLC, which was formerly known as Liberty Media Corporation, and which we refer to as "Old Liberty". As a result of the restructuring, all of the Old Liberty outstanding common stock was exchanged for our two new tracking stocks, Liberty Interactive common stock and Liberty Capital common stock. Each tracking stock issued in the restructuring is intended to track and reflect the economic performance of one of two newly designated groups, the Interactive Group and the Capital Group, respectively.

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

The term "Interactive Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which we have attributed to it. The assets and businesses we have attributed to the Interactive Group are those engaged in video and on-line commerce, and include our subsidiaries QVC, Provide and BuySeasons and our interests in Expedia and IAC/InterActiveCorp. The Interactive Group will also include such other businesses that our board of directors may in the future determine to attribute to the Interactive Group, including such other businesses as we may acquire for the Interactive Group. In addition, we have attributed $3,108 million principal amount (as of December 31, 2006) of our existing publicly-traded debt to the Interactive Group.

The term "Capital Group" also does not represent a separate legal entity, rather it represents all of our businesses, assets and liabilities other than those which have been attributed to the Interactive Group. The assets and businesses attributed to the Capital Group include our subsidiaries Starz Entertainment, Starz Media, FUN and TruePosition, our equity affiliates GSN, LLC and WildBlue Communications, Inc. and our interests in News Corporation, Time Warner Inc. and Sprint Nextel Corporation. The Capital Group will also include such other businesses that our board of directors may in the future determine to attribute to the Capital Group, including such other businesses as we may acquire for the Capital Group. In addition, we have attributed $4,580 million principal amount (as of December 31, 2006) of our existing publicly-traded debt to the Capital Group.

See Exhibit 99.1 to this Annual Report on Form 10-K for unaudited attributed financial information for our tracking stock groups.

Discontinued Operations

In the fourth quarter of 2006, we committed to two separate transactions pursuant to which we intend to sell our interests in OpenTV Corp and Ascent Entertainment Group ("AEG") to unrelated third parties. The agreement to sell OpenTV was executed in October 2006 and provided for us to sell all of our controlling interest in OpenTV for approximately $132 million in cash. Pursuant to an agreement with OpenTV, we would pay OpenTV up to approximately $20 million of the sales proceeds on the first anniversary of the closing, subject to the satisfaction of certain conditions. The transaction was completed on January 16, 2007. The agreement to sell AEG, of which the primary asset is 100% of the common stock of On Command Corporation, was executed in December 2006 and provides that if the transaction is completed, we would sell our interest in AEG for $332 million in cash and 2.05 million shares of common stock of the buyer valued at approximately $50 million. The transaction, which is subject to regulatory approval and customary closing conditions, is expected to close in mid-2007.

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

On July 21, 2005, we completed the spin off of our wholly-owned subsidiary, Discovery Holding Company ("DHC"), to our shareholders. At the time of the spin off, DHC's assets were comprised of our 100% ownership interest in Ascent Media Group, our 50% ownership interest in Discovery Communications, Inc. and $200 million in cash. The spin off is intended to qualify as a tax-free spin off. We recognized no gain or loss in connection with the spin off due to the pro rata nature of the distribution.

On June 7, 2004, we completed the spin off of our wholly-owned subsidiary, Liberty Media International, Inc. ("LMI"), to our shareholders. Substantially all of the assets and businesses of LMI were attributed to our International Group segment. The spin off is intended to qualify as a tax-free spin off. For accounting purposes, the spin off is deemed to have occurred on June 1, 2004, and we recognized no gain or loss in connection with the spin off due to the pro rata nature of the distribution.

During the fourth quarter of 2004, the executive committee of our board of directors approved a plan to dispose of our approximate 56% ownership interest in Maxide Acquisition, Inc. (d/b/a DMX Music, "DMX"). On February 14, 2005, DMX commenced proceedings under Chapter 11 of the United States Bankruptcy Code. On May 16, 2005, The Bankruptcy Court approved the sale of substantially all of the operating assets of DMX to an independent third party. As a result of the DMX bankruptcy filing, we deconsolidated DMX effective December 31, 2004.

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

Strategies and Challenges of Business Units

QVC has identified improved domestic growth and continued international growth as key areas of focus in 2007. QVC's steps to achieving these goals will include (1) continued domestic and international efforts to increase the number of customers who have access to and use its service, (2) continued expansion of brand selection and available domestic products and (3) continued development and enhancement of the QVC websites to drive Internet commerce. The key challenges to achieving these goals in both the U.S. and international markets are (1) increased competition from other home shopping and Internet retailers, (2) advancements in technology, such as video on demand and personal video recorders, which may alter TV viewing habits, (3) maintaining favorable channel positioning as digital TV penetration increases and (4) successful management transition.

Starz Entertainment views (1) negotiating new affiliation agreements with key distributors and (2) increasing subscribers to its on-demand and more traditional cable and satellite delivered services, as well as its Internet delivered services, as key initiatives in 2007. Starz Entertainment faces several key obstacles in its attempt to meet these goals, including: (1) cable operators' promotion of bundled service offerings rather than premium video services; (2) the impact on viewer habits of new technologies such as video on demand and personal video recorders; (3) continued consolidation in the broadband and satellite distribution industries; and (4) an increasing number of alternative movie and programming sources.

Results of Operations

General. We provide in the tables below information regarding our Consolidated Operating Results and Other Income and Expense, as well as information regarding the contribution to those items of our reportable segments categorized by the tracking stock group to which those segments are attributed. The "corporate and other" category for each tracking stock group consists of those assets within the category which are attributed to such tracking stock group. For a more detailed discussion and analysis of the financial results of the principal reporting segments of each tracking stock group, see "Interactive Group" and "Capital Group" below.

Consolidated Operating Results

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Revenue			
Interactive Group			
QVC	$7,074	6,501	5,687
Corporate and Other	252	—	—
	7,326	6,501	5,687
Capital Group			
Starz Entertainment	1,033	1,004	963
Corporate and Other	254	141	93
	1,287	1,145	1,056
Consolidated Liberty	$8,613	7,646	6,743
Operating Cash Flow (Deficit)			
Interactive Group			
QVC	$1,656	1,422	1,230
Corporate and Other	24	(5)	(6)
	1,680	1,417	1,224
Capital Group			
Starz Entertainment	186	171	239
Corporate and Other	(83)	(47)	(72)
	103	124	167
Consolidated Liberty	$1,783	1,541	1,391

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Operating Income (Loss)			
Interactive Group			
QVC	$1,130	921	760
Corporate and Other	—	(5)	(12)
	1,130	916	748
Capital Group			
Starz Entertainment	163	105	148
Corporate and Other	(272)	(77)	(108)
	(109)	28	40
Consolidated Liberty	$1,021	944	788

Revenue. Our consolidated revenue increased 12.6% in 2006 and 13.4% in 2005, as compared to the corresponding prior year. The 2006 increase is due primarily to an 8.8% or $573 million increase at QVC and our 2006 acquisitions of Provide ($220 million), Starz Media ($86 million), FUN ($42 million) and BuySeasons ($32 million). The 2005 increase was driven primarily by growth of 14.3% at QVC and growth of 4.3% at Starz Entertainment. In addition, TruePosition's revenue increased $77 million as it continued to increase delivery and acceptance of its equipment in Cingular Wireless's markets. See Management's Discussion and Analysis for the Interactive Group and the Capital Group below for a more complete discussion of QVC's and Starz Entertainment's results of operations.

In November 2006, TruePosition signed an amendment to its existing services contract with Cingular Wireless that requires TruePosition to develop and deliver additional software features. Because vendor specific objective evidence related to the value of these additional features does not exist, TruePosition is required to defer revenue recognition until all of the features have been delivered. TruePosition estimates that these features will be delivered in the first quarter of 2008. Accordingly, TruePosition will not recognize any revenue under this contract until 2008. TruePosition recognized approximately $105 million of revenue under this contract in 2006 prior to signing the amendment.

Operating Cash Flow. We define Operating Cash Flow as revenue less cost of sales, operating expenses and selling, general and administrative ("SG&A") expenses (excluding stock compensation). Our chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock compensation, litigation settlements and impairments of long-lived assets that are included in the measurement of operating income pursuant to generally accepted accounting principles ("GAAP"). Accordingly, Operating Cash Flow should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 18 to the accompanying consolidated financial statements for a reconciliation of Operating Cash Flow to Earnings (Loss) From Continuing Operations Before Income Taxes and Minority Interest.

Consolidated Operating Cash Flow increased $242 million or 15.7% and $150 million or 10.8% in 2006 and 2005, respectively, as compared to the corresponding prior year. The 2006 increase is due to a $234 million or 16.5% increase at QVC and a $15 million or 8.8% increase at Starz Entertainment.

Operating cash flow for Provide of $24 million and BuySeasons of $6 million were offset by operating cash flow deficits for Starz Media of $24 million and FUN of $11 million. The 2005 increase is due to a $192 million increase for QVC and a $30 million improvement for TruePosition, partially offset by a $68 million decrease for Starz Entertainment.

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

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123R (revised 2004), *"Share-Based Payment"* ("Statement 123R"). Statement 123R requires that we amortize the grant date fair value of our stock option and SAR awards that qualify as equity awards as stock compensation expense over the vesting period of such awards. Statement 123R also requires that we record our liability awards at fair value each reporting period and that the change in fair value be reflected as stock compensation expense in our consolidated statement of operations. Prior to adoption of Statement 123R, the amount of expense associated with stock-based compensation was generally based on the vesting of the related stock options and stock appreciation rights and the market price of the underlying common stock, as well as the vesting of PSARs and the equity value of the related subsidiary. The expense reflected in our consolidated financial statements was based on the market price of the underlying common stock as of the date of the financial statements.

In connection with our adoption of Statement 123R, we recorded an $89 million transition adjustment, net of related income taxes of $31 million, which primarily reflects the fair value of the liability portion of QVC's stock option awards at January 1, 2006. The transition adjustment is reflected in the accompanying consolidated statement of operations as the cumulative effect of accounting change. In addition, we recorded $67 million of stock compensation expense for the year ended December 31, 2006, compared with $52 million for the comparable period in 2005. The 2006 stock compensation expense is net of a $24 million credit related to the terminations of QVC's stock option plan as described in note 13 to the accompanying consolidated financial statements. As of December 31, 2006, the total unrecognized compensation cost related to unvested Liberty equity awards was approximately $59 million. Such amount will be recognized in our consolidated statements of operations over a weighted average period of approximately 2 years.

Depreciation and amortization. Depreciation and amortization increased in 2006 due to our acquisitions and capital expenditures partially offset by a decrease at Starz Entertainment due to certain intangibles becoming fully amortized. As the businesses we acquired in 2006 are not capital intensive, we do not expect them to have a significant impact on our depreciation in the future. Depreciation and amortization decreased slightly in 2005 due to certain assets becoming fully amortized, partially offset by an increase in depreciable assets due to capital expenditures.

Impairment of long-lived assets. We acquired our interest in FUN in March 2006. Subsequent to our acquisition, the market value of FUN's stock has declined significantly due to the performance of certain of FUN's subsidiaries and uncertainty surrounding government legislation of Internet gambling which we believe the market perceives as potentially impacting FUN's skill gaming business. In connection with our annual evaluation of the recoverability of FUN's goodwill, we received a third-party valuation, which indicated that the carrying value of FUN's goodwill exceeded its market value. Accordingly, we recognized a $111 million impairment charge related to goodwill and a $2 million impairment charge related to trademarks.

Operating income (loss). We generated consolidated operating income of $1,021 million, $944 million and $788 million in 2006, 2005 and 2004, respectively. The 2006 increase is due to increases for QVC ($209 million) and Starz Entertainment ($58 million), partially offset by losses generated by FUN ($140 million, including the above-described impairment charges) and Starz Media ($29 million) as well as an increase in corporate stock compensation expense of $34 million due to the adoption of Statement 123R. Our operating income in 2005 is attributable to QVC ($921 million) and Starz Entertainment ($105 million) partially offset by operating losses of our other consolidated subsidiaries and corporate expenses.

Other Income and Expense

Components of Other Income (Expense) are as follows:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Interest expense			
Interactive Group	$(417)	(374)	(385)
Capital Group	(263)	(252)	(234)
Consolidated Liberty	$(680)	(626)	(619)
Dividend and interest income			
Interactive Group	$ 40	35	20
Capital Group	174	108	110
Consolidated Liberty	$ 214	143	130
Share of earnings of affiliates			
Interactive Group	$ 47	9	(3)
Capital Group	44	4	18
Consolidated Liberty	$ 91	13	15
Realized and unrealized gains (losses) on financial instruments, net			
Interactive Group	$ 20	(17)	(17)
Capital Group	(299)	274	(1,267)
Consolidated Liberty	$(279)	257	(1,284)
Gains (losses) on dispositions, net			
Interactive Group	$ —	40	7
Capital Group	607	(401)	1,404
Consolidated Liberty	$ 607	(361)	1,411
Nontemporary declines in fair value of investments			
Interactive Group	$ —	—	—
Capital Group	(4)	(449)	(129)
Consolidated Liberty	$ (4)	(449)	(129)
Other, net			
Interactive Group	$ 23	(38)	4
Capital Group	(5)	(1)	(30)
Consolidated Liberty	$ 18	(39)	(26)

Interest expense. Consolidated interest expense increased 8.6% and 1.1% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year. Interest expense attributable to the Interactive Group increased 11.5% in 2006 due to increased borrowings by QVC, which were used to retire certain of our publicly-traded debt and for repurchases of Liberty Interactive common stock. The increase in 2005 is due to lower outstanding debt balances, more than offset by higher interest rates on our variable rate debt.

Dividend and interest income. Interest income for the Capital Group increased in 2006 due to higher invested cash balances. Interest and dividend income for the year ended December 31, 2006 was comprised of interest income earned on invested cash ($84 million), dividends on News Corporation common stock ($57 million), dividends on other available-for-sale ("AFS") securities ($20 million) and other ($13 million). If our exchange transaction with News Corporation described below is completed as currently contemplated, we expect that our dividend income from News Corporation in 2007 will be approximately 50% of the 2006 amount and zero in subsequent years.

Share of earnings of affiliates. Our 2006 share of earnings of affiliates are attributable to Expedia ($50 million) and other investees ($41 million). In December 2006, we announced that we had entered into an exchange agreement with News Corporation pursuant to which, if completed, we would exchange our approximate 16.2% ownership interest in News Corporation for a subsidiary of News Corporation, which would own News Corporation's approximate 38.5% interest in The DirecTV Group, Inc., three regional sports television networks and approximately $550 million in cash. Consummation of the exchange, which is subject to various closing conditions, including approval by News Corporation's shareholders, regulatory approval and receipt of a favorable ruling from the IRS that the exchange is tax free, is expected in mid- 2007. Upon consummation, if completed, we will account for our interest in The DirecTV Group using the equity method of accounting, which could result in a significant increase in our share of earnings of affiliates in future periods. In this regard, The DirecTV Group announced that its net income for the year ended December 31, 2006 was $1,420 million.

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

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Exchangeable debenture call option obligations	$(353)	172	(129)
Equity collars	(59)	311	(941)
Borrowed shares	(32)	(205)	(227)
Put options	—	(66)	2
Other derivatives	165	45	11
	$(279)	257	(1,284)

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

Transaction	Years ended December 31, 2006	2005	2004
	(amounts in millions)		
Capital Group			
Sale of investment in Court TV	$303	—	—
Sale of investment in Freescale	256	—	—
Sale of investment in Telewest Global, Inc.	—	(266)	—
Sale of investment in Cablevisión S.A.	—	(188)	—
Sale of News Corporation non-voting shares	—	—	844
Exchange transaction with Comcast	—	—	387
Other, net	48	53	173
	607	(401)	1,404
Interactive Group			
Other, net	—	40	7
	$607	(361)	1,411

In the above transactions, the gains or losses were calculated based upon the difference between the carrying value of the assets relinquished, as determined on an average cost basis, compared to the fair value of the assets received. See notes 6, 11 and 15 to the accompanying consolidated financial statements for a discussion of the foregoing transactions.

Nontemporary declines in fair value of investments. During 2006, 2005 and 2004, we determined that certain of our cost investments experienced other-than-temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based primarily on quoted market prices at the date each adjustment was deemed necessary. These adjustments are reflected as nontemporary declines in fair value of investments in our consolidated statements of operations. The impairment recorded in 2005 includes $352 million related to our investment in News Corporation voting shares.

Income taxes. Our effective tax rate was 26.2% in 2006, 74.6% in 2005 and 60.2% in 2004. Our 2006 rate is less than the U.S. federal income tax rate of 35% due, in part, to a deferred tax benefit we recognized when we decided to effect a restructuring transaction which was effective on April 1, 2006, and which enabled us to include TruePosition in our Federal consolidated tax group on a prospective basis. As a result of this decision and considering our overall tax position, we reversed $89 million of valuation allowance recorded against TruePosition's net deferred tax assets into our statement of operations as a deferred tax benefit in 2006. This valuation allowance did not relate to net operating loss carryforwards or some other future tax deduction of TruePosition, but rather related to temporary differences caused by revenue and cost amounts that were recognized for tax purposes in prior periods, but have been deferred for financial reporting purposes until future periods. In addition, we recorded deferred tax benefits of $105 million for changes in our estimated foreign tax rate based on our projections of our ability to use foreign tax credits in the future and $25 million for changes in our estimated state tax rate used to calculate our deferred tax liabilities. These benefits were partially offset by current tax expense of $43 million on the gain on sale of Court TV for which we had higher book basis than tax basis and $39 million for impairment of goodwill that is not deductible for tax purposes. In addition, we recorded state ($34 million) and foreign ($20 million) tax expense.

Our effective tax rate in 2005 was greater than the U.S. federal income tax rate of 35% primarily due to a tax benefit of $147 million that we recorded as a result of a change in our estimated effective state and foreign tax rates. In the third quarter of 2005, we assessed our weighted average state tax rate in connection with our spin off of Discovery Holding Company. As a result of this assessment, we decreased our state tax rate used in calculating the amount of our deferred tax liabilities and recognized a deferred income tax benefit of $131 million. Also in 2005, we reduced our estimated foreign tax rate related to QVC and recognized a tax benefit of $16 million. These tax benefits were partially offset by our foreign tax expense and an increase in our valuation allowance for deferred tax assets of subsidiaries that we do not consolidate for tax purposes. Our effective tax rate in 2004 differed from the U.S. federal income tax rate of 35% primarily due to foreign and state taxes.

Historically, we have not made federal income tax payments due to our ability to use prior year net operating and capital losses carryforwards to offset current year taxable income. However, based on current projections, we believe that we will use our available net operating and capital losses in 2007, and that we will start making federal income tax payments to the extent that we continue to generate taxable income in the future. These payments could prove to be significant.

Net earnings (loss). Our net earnings (loss) was $840 million, ($33) million and $46 million for the years ended December 31, 2006, 2005 and 2004, respectively, and was the result of the above-described fluctuations in our revenue and expenses. In addition, we recognized earnings (loss) from discontinued operations of $220 million, $10 million and ($59) million for the years ended December 31, 2006, 2005 and 2004, respectively. Included in our 2006 earnings from discontinued operations are tax benefits of $236 million related to our excess outside tax basis in OPTV and AEG over our basis for financial reporting.

Liquidity and Capital Resources

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

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

Interactive Group. During the year ended December 31, 2006, the Interactive Group's primary uses of cash were the retirement of $1,369 million principal amount of senior notes that matured in September 2006, funding the acquisition of Provide ($465 million), repurchases of QVC common stock ($331 million), capital expenditures ($259 million), tax payments to the Capital Group ($173 million), stock compensation payments ($111 million) and the repurchase of outstanding Liberty Interactive common stock. Our board of directors has authorized a share repurchase program pursuant to which we may repurchase up to $2 billion of outstanding shares of Liberty Interactive common stock in the open market or in privately negotiated transactions, from time to time, subject to market conditions. During the period from May 10, 2006 to December 31, 2006, we repurchased 51.6 million shares of Liberty Interactive Series A common stock for aggregate cash consideration of $954 million pursuant to this share repurchase program. We may alter or terminate the stock repurchase program at any time.

The Interactive Group's uses of cash in 2006 were primarily funded with cash from operations and borrowings under QVC's credit facilities. As of December 31, 2006, the Interactive Group had a cash balance of $946 million.

The projected uses of Interactive Group cash for 2007 include approximately $430 million for interest payments on QVC debt and parent debt attributed to the Interactive Group, $350 million for capital expenditures, additional tax payments to the Capital Group and additional repurchases of Liberty Interactive common stock. In addition, we may make additional investments in existing or new businesses and attribute such investments to the Interactive Group. However, we do not have any commitments to make new investments at this time.

Effective March 3, 2006, QVC refinanced its existing bank credit facility with a new $3.5 billion bank credit facility, which was subsequently amended on October 4, 2006 (the "March 2006 Credit Agreement"). The March 2006 Credit Agreement is comprised of an $800 million U.S. dollar term loan that was drawn at closing, an $800 million U.S. dollar term loan that was drawn on September 18, 2006, a $600 million multi-currency term loan that was drawn in U.S. dollars on September 18, 2006, a $650 million U.S. dollar revolving loan and a $650 million multi-currency revolving loan. The foregoing multi-currency loans can be made, at QVC's option, in U.S. dollars, Japanese yen, U.K. pound sterling or euros. All loans are due and payable on March 3, 2011, and accrue interest at a rate equal to (i) LIBOR for the interest period selected by QVC plus a margin that varies based on QVC's leverage ratio or (ii) the higher of the Federal Funds Rate plus 0.50% or the prime rate announced by JP Morgan Chase Bank, N.A. from time to time. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments.

On October 4, 2006, QVC entered into a new credit agreement (the "October 2006 Credit Agreement"), which provides for an additional unsecured $1.75 billion credit facility, consisting of an $800 million initial term loan made on October 13, 2006 and $950 million of delayed draw term loans to be made after closing from time to time upon the request of QVC. The delayed draw term loans are available until September 30, 2007 and are subject to reductions in the principal amount available starting on March 31, 2007. The loans will bear interest at a rate equal to (i) LIBOR for the interest period selected by QVC plus a margin that varies based on QVC's leverage ratio or (ii) the higher of the Federal Funds Rate plus 0.50% or the prime rate announced by Wachovia Bank, N.A. from time to time. The loans are scheduled to mature on October 4, 2011.

Aggregate commitments under the March 2006 Credit Agreement and the October 2006 Credit Agreement are $5.25 billion, and outstanding borrowings aggregated $3.225 billion at December 31, 2006. QVC's ability to borrow the unused capacity is dependent on its continuing compliance with the covenants contained in the agreements at the time of, and after giving effect to, a requested borrowing.

Capital Group. During the year ended December 31, 2006, the Capital Group's primary uses of cash were the acquisition of Starz Media ($290 million) and FUN ($200 million), loans to WildBlue Communications, an equity affiliate ($187 million), and net cash transfers of $293 million to the Interactive Group prior to the Restructuring. These investing activities were funded with available cash on hand and proceeds from derivative settlements and asset sales.

The projected uses of Capital Group cash for 2007 include approximately $130 million for interest payments on debt attributed to the Capital Group. In addition, we may make additional investments in existing or new businesses and attribute such investments to the Capital Group. However, we do not have any commitments to make new investments at this time.

In connection with the issuance of our tracking stocks, our board of directors authorized a share repurchase program pursuant to which we may repurchase up to $1 billion of outstanding shares of Liberty Capital common stock in the open market or in privately negotiated transactions, from time to time, subject to market conditions. We may alter or terminate the stock repurchase program at any time. As of December 31, 2006, we have not repurchased any shares of Liberty Capital common stock pursuant to this repurchase program.

We expect that the Capital Group's investing and financing activities will be funded with a combination of cash on hand, cash proceeds from sales of OpenTV, AEG and our exchange transaction with News Corporation, cash provided by operating activities, tax payments from the Interactive Group, proceeds from collar expirations and dispositions of non-strategic assets. At December 31, 2006, the Capital Group's sources of liquidity include $2,288 million in cash and marketable debt securities and $7,386 million of non-strategic AFS securities including related derivatives. To the extent the Capital Group recognizes any taxable gains from the sale of assets or the expiration of derivative instruments, we may incur current tax expense and be required to make tax payments, thereby reducing any cash proceeds attributable to the Capital Group.

Our derivatives ("AFS Derivatives") related to certain of our AFS investments provide the Capital Group with an additional source of liquidity. Based on the put price and assuming we deliver owned or borrowed shares to settle each of the AFS Derivatives as they mature and excluding any provision for income taxes, the Capital Group would have attributed to it cash proceeds of approximately $322 million in 2007, zero in 2008, $1,180 million in 2009, $1,680 million in 2010, $446 million in 2011 and $866 million in 2013 upon settlement of its AFS Derivatives.

Prior to the maturity of the equity collars, the terms of certain of the equity collars allow borrowings against the future put option proceeds at LIBOR or LIBOR plus an applicable spread, as the case may be. As of December 31, 2006, such borrowing capacity aggregated approximately $4,494 million. Such borrowings would reduce the cash proceeds upon settlement noted in the preceding paragraph. In the event we complete our exchange transaction with News Corporation as currently contemplated, such borrowing capacity would be reduced by $916 million.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Capital Group

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

Starz Entertainment has entered into agreements with a number of motion picture producers which obligate Starz Entertainment to pay fees ("Programming Fees") for the rights to exhibit certain films that are released by these producers. The unpaid balance under agreements for film rights related to films that were available for exhibition by Starz Entertainment at December 31, 2006 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2006 is payable as follows: $110 million in 2007; $9 million in 2008; and $8 million thereafter.

Starz Entertainment has also contracted to pay Programming Fees for the rights to exhibit films that have been released theatrically, but are not available for exhibition by Starz Entertainment until some future date. These amounts have not been accrued at December 31, 2006. Starz Entertainment's estimate of amounts payable under these agreements is as follows: $538 million in 2007; $148 million in 2008; $93 million in 2009; $87 million in 2010; $31 million in 2011 and $67 million thereafter.

In addition, Starz Entertainment is obligated to pay Programming Fees for all qualifying films that are released theatrically in the United States by studios owned by The Walt Disney Company through 2009, all qualifying films that are released theatrically in the United States by studios owned by Sony Pictures Entertainment through 2010 and all qualifying films produced for theatrical release in the United States by Revolution Studios through 2006. Films are generally available to Starz Entertainment for exhibition 10 - 12 months after their theatrical release. The Programming Fees to be paid by Starz Entertainment are based on the quantity and domestic theatrical exhibition receipts of qualifying films. As these films have not yet been released in theatres, Starz Entertainment is unable to estimate the amounts to be paid under these output agreements. However, such amounts are expected to be significant.

In addition to the foregoing contractual film obligations, each of Disney and Sony has the right to extend its contract for an additional three years. If Sony elects to extend its contract, Starz Entertainment has agreed to pay Sony a total of $190 million in four annual installments of $47.5 million beginning in 2011. This option expires December 31, 2007. If made, Starz Entertainment's payments to Sony would be amortized ratably over the extension period beginning in 2011. An extension of this agreement would also result in the payment by Starz Entertainment of Programming Fees for qualifying films released by Sony during the extension period. If Disney elects to extend its contract, Starz Entertainment is not obligated to pay any amounts in excess of its Programming Fees for qualifying films released by Disney during the extension period.

Liberty guarantees Starz Entertainment's film licensing obligations under certain of its studio output agreements. At December 31, 2006, Liberty's guarantees for studio output obligations for films released by such date aggregated $695 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, Starz Entertainment has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of Starz Entertainment, a consolidated subsidiary of ours, we have not recorded a separate liability for our guarantees of these obligations.

Since the date we issued our exchangeable debentures, we have claimed interest deductions on such exchangeable debentures for federal income tax purposes based on the "comparable yield" at which we could have issued a fixed-rate debenture with similar terms and conditions. In all instances, this policy has resulted in us claiming interest deductions significantly in excess of the cash interest currently paid on our exchangeable debentures. In this regard, we have deducted $2,218 million in cumulative interest expense associated with the exchangeable debentures since our 2001 split off from AT&T Corp. Of that amount, $629 million represents cash interest payments. Interest deducted in prior years on our exchangeable debentures has contributed to net operating losses ("NOLs") that may be carried to offset taxable income in 2006 and later years. These NOLs and current interest deductions on our exchangeable debentures are being used to offset taxable income currently being generated.

The IRS has issued Technical Advice Memorandums ("TAMs") challenging the current deductibility of interest expense claimed on exchangeable debentures issued by other companies. The TAMs conclude that such interest expense must be capitalized as basis to the shares referenced in the exchangeable debentures. If the IRS were to similarly challenge our tax treatment of these interest deductions, and ultimately win such challenge, there would be no impact to our reported total tax expense as the resulting increase in current tax expense would be offset by a decrease in our deferred tax expense. However, we would be required to make current federal income tax payments and may be required to make interest payments to the IRS. These payments could prove to be significant.

Pursuant to a tax sharing agreement (the "AT&T Tax Sharing Agreement") between us and AT&T when we were a subsidiary of AT&T, we received a cash payment from AT&T in periods when we generated taxable losses and such taxable losses were utilized by AT&T to reduce its consolidated income tax liability. To the extent such losses were not utilized by AT&T, such amounts were available to reduce federal taxable income generated by us in future periods, similar to a net operating loss carryforward. While we were a subsidiary of AT&T, we recorded our stand-alone tax provision on a separate return basis. Subsequent to our spin off from AT&T, if adjustments are made to amounts previously paid under the AT&T Tax Sharing Agreement, such adjustments are reflected as adjustments to additional paid-in capital. During the period from March 10, 1999 to December 31, 2002, we received cash payments from AT&T aggregating $670 million as payment for our taxable losses that AT&T utilized to reduce its income tax liability.

Also, pursuant to the AT&T Tax Sharing Agreement and in connection with our split off from AT&T, AT&T was required to pay us an amount equal to 35% of the amount of the net operating loss carryforward ("TCI NOLs") reflected in TCI's final federal income tax return that had not been used as an offset to our obligations under the AT&T Tax Sharing Agreement and that had been, or were reasonably expected to be, utilized by AT&T. In connection with our split off from AT&T, we received an $803 million payment for the TCI NOLs and recorded such payment as an increase to additional paid-in capital. We were not paid for certain of the TCI NOLs (“SRLY NOLs”) due to limitations and uncertainty regarding AT&T’s ability to use them to offset taxable income in the future. In the event AT&T was ultimately able to use any of the SRLY NOLs, they would be required to pay us 35% of the amount of the SRLY NOLs used. In the fourth quarter of 2004 and in connection with the completion of an IRS audit of TCI’s tax return for 1994, it was determined that we were required to recognize additional taxable income related to the recapitalization of one of our investments resulting in a tax liability of approximately $30 million. As a result of the tax assessment, we also received a corresponding amount of additional tax basis in the investment. However, we were able to cause AT&T to use a portion of the SRLY NOLs to offset this taxable income, the benefit of which resulted in the elimination of the $30 million tax liability and an increase to additional paid-in capital.

In the fourth quarter of 2004, AT&T requested a refund from us of $70 million, plus accrued interest, relating to losses that it generated in 2002 and 2003 and was able to carry back to offset taxable income previously offset by our losses. AT&T has asserted that our losses caused AT&T to pay $70 million in alternative minimum tax (“AMT”) that it would not have been otherwise required to pay had our losses not been included in its return. In 2004, we estimated that we may ultimately pay AT&T up to $30 million of the requested $70 million because we believed AT&T received an AMT credit of $40 million against income taxes resulting from the AMT previously paid. Accordingly, we accrued a $30 million liability with an offsetting reduction of additional paid-in capital. The net effect of the completion of the IRS tax audit noted above (including the benefit derived from AT&T for the utilization of the SRLY NOLs) and our accrual of amounts due to AT&T was an increase to our deferred tax assets and an increase to our other liabilities.

In the fourth quarter of 2005, AT&T requested an additional $21 million relating to additional losses it generated and was able to carry back to offset taxable income previously offset by our losses. In addition, the information provided to us in connection with AT&T’s request showed that AT&T had not yet claimed a credit for AMT previously paid. Accordingly, in the fourth quarter of 2005, we increased our accrual by approximately $40 million (with a corresponding reduction of additional paid-in capital) representing our estimate of the amount we may ultimately pay (excluding accrued interest, if any) to AT&T as a result of this request. Although we have not reduced our accrual for any future refunds, we believe we are entitled to a refund when AT&T is able to realize a benefit in the form of a credit for the AMT previously paid.

In March 2006, AT&T requested an additional $21 million relating to additional losses and IRS audit adjustments that it claims it is able to use to offset taxable income previously offset by our losses. We have reviewed this claim and we believe that our accrual as of December 31, 2005 is adequate. Accordingly, no additional accrual was made for AT&T’s March 2006 request.

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

Capital Group and Interactive Group

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

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

Information concerning the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations at December 31, 2006 is summarized below:

	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(amounts in millions)				
Attributed Capital Group contractual obligations					
Long-term debt(1)	$ 4,738	103	1,812	66	2,757
Interest payments(2)	2,520	128	235	218	1,939
Long-term derivative instruments	1,901	1,484	—	155	262
Operating lease obligations	61	10	18	12	21
Programming Fees(3)	1,091	648	258	118	67
Purchase orders and other obligations	21	21	—	—	—
Total Capital Group	10,332	2,394	2,323	569	5,046
Attributed Interactive Group contractual obligations					
Long-term debt(1)	6,400	11	925	3,243	2,221
Interest payments(2)	3,987	427	825	570	2,165
Long-term derivative instruments	9	—	—	9	—
Operating lease obligations	72	18	27	17	10
Purchase orders and other obligations	1,013	1,013	—	—	—
Total Interactive Group	11,481	1,469	1,777	3,839	4,396
Consolidated contractual obligations					
Long-term debt(1)	11,138	114	2,737	3,309	4,978
Interest payments(2)	6,507	555	1,060	788	4,104
Long-term derivative instruments	1,910	1,484	—	164	262
Operating lease obligations	133	28	45	29	31
Programming Fees(3)	1,091	648	258	118	67
Purchase orders and other obligations	1,034	1,034	—	—	—
Total consolidated	$21,813	3,863	4,100	4,408	9,442

(1) Includes all debt instruments, including the call option feature related to our exchangeable debentures. Amounts are stated at the face amount at maturity and may differ from the amounts stated in our consolidated balance sheet to the extent debt instruments (i) were issued at a discount or premium or (ii) have elements which are reported at fair value in our consolidated balance sheet. Also includes capital lease obligations. Amounts do not assume additional borrowings or refinancings of existing debt.

(2) Amounts (i) are based on our outstanding debt at December 31, 2006, (ii) assume the interest rates on our floating rate debt remain constant at the December 31, 2006 rates and (iii) assume that our existing debt is repaid at maturity.

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

Recent Accounting Pronouncements

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, "*Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140.*" Statement 155, among other things, amends Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities,*" and permits fair value remeasurement of hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Statement 155 is effective after the beginning of an entity's first fiscal year that begins after September 15, 2006. We intend to adopt the provisions of Statement 155 effective January 1, 2007 and to account for our senior exchangeable debentures at fair value rather than bifurcating such debentures into a debt instrument and a derivative instrument as required by Statement 133. If we had adopted Statement 155 as of December 31, 2006, we would have recorded an increase to long-term debt of $1.9 billion, a decrease to long-term derivative instruments of $1.3 billion and an increase to accumulated deficit of $600 million.

In June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109.*" FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. While we have not completed our evaluation of the impact of FIN 48 on our financial statements, we believe that the application of FIN 48 will result in the derecognition of certain tax liabilities currently reflected in our consolidated balance sheet with a corresponding decrease to our accumulated deficit. We are unable to quantify the amount of these adjustments at this time.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*", which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. Statement 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact of the adoption of Statement 157 on our consolidated balance sheet, statements of operations and comprehensive earnings (loss), and statements of cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115.*" Statement 159 permits entities to choose to measure many financial instruments, such as available-for-sale securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the entity's statement of operations. Currently under Statement of Financial Accounting Standards No. 115, entities are required to recognize changes in fair value of available-for-sale securities in the balance sheet in accumulated other comprehensive earnings. Statement 159 is effective as of the beginning of an entity's fiscal year that begins after November 15, 2007. We are currently evaluating the potential impacts of Statement 159 on our financial statements and have not made a determination as to which of our financial instruments, if any, we will choose to apply the provisions of Statement 159.

Critical Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Listed below are the accounting estimates that we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. All of these accounting estimates and assumptions, as well as the resulting impact to our financial statements, have been discussed with our audit committee.

Carrying Value of Investments. Our cost and equity method investments comprise a significant portion of our total assets at each of December 31, 2006 and 2005. We account for these investments pursuant to Statement of Financial Accounting Standards No. 115, Statement of Financial Accounting Standards No. 142, Accounting Principles Board Opinion No. 18, EITF Topic 03-1 and SAB No. 59. These accounting principles require us to periodically evaluate our investments to determine if decreases in fair value below our cost bases are other than temporary or "nontemporary." If a decline in fair value is determined to be nontemporary, we are required to reflect such decline in our statement of operations. Nontemporary declines in fair value of our cost investments are recognized on a separate line in our statement of operations, and nontemporary declines in fair value of our equity method investments are included in share of losses of affiliates in our statement of operations.

The primary factors we consider in our determination of whether declines in fair value are nontemporary are the length of time that the fair value of the investment is below our carrying value; and the financial condition, operating performance and near term prospects of the investee. In addition, we consider the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and our intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. Fair value of our publicly traded investments is based on the market prices of the investments at the balance sheet date. We estimate the fair value of our other cost and equity investments using a variety of methodologies, including cash flow multiples, discounted cash flow, per subscriber values, or values of comparable public or private businesses. Impairments are calculated as the difference between our carrying value and our estimate of fair value. As our assessment of the fair value of our investments and any resulting impairment losses and the timing of when to recognize such charges requires a high degree of judgment and includes significant estimates and assumptions, actual results could differ materially from our estimates and assumptions.

Our evaluation of the fair value of our investments and any resulting impairment charges are made as of the most recent balance sheet date. Changes in fair value subsequent to the balance sheet date due to the factors described above are possible. Subsequent decreases in fair value will be recognized in our statement of operations in the period in which they occur to the extent such decreases are deemed to be nontemporary. Subsequent increases in fair value will be recognized in our statement of operations only upon our ultimate disposition of the investment.

At December 31, 2006, we had unrealized holding losses of $1 million related to certain of our AFS equity securities.

Accounting for Derivative Instruments. We use various derivative instruments, including equity collars, written put and call options, interest rate swaps and foreign exchange contracts, to manage fair value and cash flow risk associated with many of our investments, some of our debt and transactions denominated in foreign currencies. We account for these derivative instruments pursuant to Statement 133 and Statement of Financial Accounting Standards No. 149, "*Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities.*" Statement 133 and Statement 149 require that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of our derivatives are included in realized and unrealized gains (losses) on derivative instruments in our statement of operations.

We use the Black-Scholes model to estimate the fair value of our derivative instruments that we use to manage market risk related to certain of our AFS securities. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. We obtain volatility rates from independent sources based on the expected volatility of the underlying security over the term of the derivative instrument. The volatility assumption is evaluated annually to determine if it should be adjusted, or more often if there are indications that it should be adjusted. We obtain a discount rate at the inception of the derivative instrument and update such rate each reporting period based on our estimate of the discount rate at which we could currently settle the derivative instrument. At December 31, 2006, the expected volatilities used to value our AFS Derivatives generally ranged from 19% to 26% and the discount rates ranged from 5.1% to 5.4%. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of our derivative instruments may differ from these estimates.

Changes in our assumptions regarding (1) the discount rate and (2) the volatility rates of the underlying securities that are used in the Black-Scholes model would have the most significant impact on the valuation of our AFS Derivatives. The table below summarizes changes in these assumptions and the resulting impacts on our estimate of fair value.

Assumption	Estimated aggregate fair value of AFS Derivatives	Dollar value change
	(amounts in millions)	
As recorded at December 31, 2006	$ 983	—
25% increase in discount rate	$ 830	(153)
25% decrease in discount rate	$1,136	153
25% increase in expected volatilities	$ 925	(58)
25% decrease in expected volatilities	$1,060	77

Carrying Value of Long-lived Assets. Our property and equipment, intangible assets and goodwill (collectively, our "long-lived assets") also comprise a significant portion of our total assets at December 31, 2006 and 2005. We account for our long-lived assets pursuant to Statement of Financial Accounting Standards No. 142 and Statement of Financial Accounting Standards No. 144. These accounting standards require that we periodically, or upon the occurrence of certain triggering events, assess the recoverability of our long-lived assets. If the carrying value of our long-lived assets exceeds their estimated fair value, we are required to write the carrying value down to fair value. Any such writedown is included in impairment of long-lived assets in our consolidated statement of operations. A high degree of judgment is required to estimate the fair value of our long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. In addition, we may obtain independent third-party appraisals in certain circumstances. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Accordingly, any value ultimately derived from our long-lived assets may differ from our estimate of fair value. As each of our operating segments has long-lived assets, this critical accounting policy affects the financial position and results of operations of each segment.

Retail Related Adjustments and Allowances. QVC records adjustments and allowances for sales returns, inventory obsolescence and uncollectible receivables. Each of these adjustments is estimated based on historical experience. Sales returns are calculated as a percent of sales and are netted against revenue in our statement of operations. For the years ended December 31, 2006 and 2005, sales returns represented 18.5% and 18.0% of QVC's gross product revenue, respectively. The inventory obsolescence is calculated as a percent of QVC's inventory at the end of a reporting period, and is included in cost of goods sold in our statement of operations. At December 31, 2006, QVC's inventory is $915 million and the obsolescence adjustment is $95 million. QVC's allowance for doubtful accounts is calculated as a percent of accounts receivable at the end of a reporting period, and the change in such allowance is recorded as bad debt expense in our statement of operations. At December 31, 2006, QVC's trade accounts receivable are $973 million, net of the allowance for doubtful accounts of $60 million. Each of these adjustments requires management judgment and may not reflect actual results.

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

Interactive Group

On May 9, 2006, our stockholders approved our corporate restructuring which, among other things, resulted in the creation of two tracking stocks, one of which is intended to reflect the separate performance of the Interactive Group. The Interactive Group consists of our subsidiaries QVC, Provide and BuySeasons, our interests in IAC/InterActiveCorp and Expedia and $3,108 million principal amount (as of December 31, 2006) of our existing publicly-traded debt.

The following discussion and analysis provides information concerning the results of operations and financial condition of the Interactive Group, which is principally comprised of QVC. Although our restructuring was not completed until May 9, 2006, the following discussion is presented as though the restructuring had been completed on January 1, 2004. The results of operations of Provide and BuySeasons are included in Corporate and Other since their respective date of acquisition in the tables below. Fluctuations in Corporate and Other from 2005 to 2006 are due primarily to the acquisitions of Provide and BuySeasons in 2006. This discussion should be read in conjunction with (1) our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups filed as Exhibit 99.1 to this Annual Report on Form 10-K.

Results of Operations

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Revenue			
QVC	$7,074	6,501	5,687
Corporate and Other	252	—	—
	$7,326	6,501	5,687
Operating Cash Flow (Deficit)			
QVC	$1,656	1,422	1,230
Corporate and Other	24	(5)	(6)
	$1,680	1,417	1,224
Operating Income (Loss)			
QVC	$1,130	921	760
Corporate and Other	—	(5)	(12)
	$1,130	916	748

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

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Net revenue	$7,074	6,501	5,687
Cost of sales	(4,426)	(4,112)	(3,594)
Gross profit	2,648	2,389	2,093
Operating expenses	(579)	(570)	(497)
SG&A expenses (excluding stock-based compensation)	(413)	(397)	(366)
Operating cash flow	1,656	1,422	1,230
Stock-based compensation	(50)	(52)	(33)
Depreciation and amortization	(476)	(449)	(437)
Operating income	$1,130	921	760

Net revenue is generated in the following geographical areas:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
QVC-US	$4,983	4,640	4,141
QVC-UK	612	554	487
QVC-Germany	848	781	643
QVC-Japan	631	526	416
	$7,074	6,501	5,687

QVC's net revenue increased 8.8% and 14.3% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year, as average sales per customer increased in both years. The 2006 increase in revenue is comprised of a $582 million increase due to an increase in the number of units shipped from 154.4 million to 165.7 million and an $88 million increase due to a 2.0% increase in the average sales price per unit ("ASP"). The revenue increases were partially offset by a $11 million decrease due to unfavorable foreign currency rates and an $86 million decrease due primarily to an increase in estimated product returns. Returns as a percent of gross product revenue increased from 18.0% in 2005 to 18.5% in 2006 due to a continued shift in the mix from home products to apparel and accessories products, which typically have higher return rates.

The 2005 increase in revenue is comprised of a $779 million increase due to an increase in the number of units shipped from 138.0 million to 154.4 million and a $204 million increase due to a 3.7% increase in the ASP. The revenue increases were partially offset by a $145 million decrease due primarily to an increase in product returns and a $24 million decrease due to unfavorable foreign currency exchange rates. Returns as a percent of gross product revenue increased from 17.6% in 2004 to 18.0% in 2005 due to a shift in the sales mix from home products to jewelry, apparel and accessories products.

The number of homes receiving QVC's services are as follows:

	Homes (in millions)		
	December 31,		
	2006	2005	2004
QVC-US	90.7	90.0	88.4
QVC-UK	19.4	17.8	15.6
QVC-Germany	37.9	37.4	35.7
QVC-Japan	18.7	16.7	14.7

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

As noted above, during the years ended December 31, 2006 and 2005, the changes in revenue and expenses were also impacted by changes in the exchange rates for the UK pound sterling, the euro and the Japanese yen. In the event the U.S. dollar strengthens against these foreign currencies in the future, QVC's revenue and operating cash flow will be negatively impacted. The percentage increase in revenue for each of QVC's geographic areas in dollars and in local currency is as follows:

	Percentage increase in net revenue			
	Year ended December 31, 2006		Year ended December 31, 2005	
	U.S. dollars	Local currency	U.S. dollars	Local currency
QVC-US	7.4%	7.4%	12.1%	12.1%
QVC-UK	10.5%	8.4%	13.8%	15.1%
QVC-Germany	8.6%	7.1%	21.5%	21.9%
QVC-Japan	20.0%	26.1%	26.4%	29.4%

QVC's gross profit percentage was 37.4%, 36.7% and 36.8% for the years ended December 31, 2006, 2005 and 2004, respectively. The increase in the gross profit percentage in 2006 was due to higher initial margins due to a shift in the sales mix from home products to higher margin apparel and accessories products and to a lower inventory obsolescence provision. The slight gross profit percentage decrease in 2005 was due primarily to a higher inventory obsolescence provision.

QVC's operating expenses are comprised of commissions and license fees, order processing and customer service expense, credit card processing fees, telecommunications expense and provision for doubtful accounts. Operating expenses increased 1.6% and 14.7% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year period. The 2005 increase is primarily due to the increase in sales volume. Operating expenses increased at a lower rate than sales in 2006 due primarily to commissions and bad debt expense. As a percentage of net revenue, operating expenses were 8.2%, 8.8% and 8.7% for 2006, 2005 and 2004, respectively. Commissions, as a percent of net revenue, were fairly consistent in 2004 and 2005 and decreased in 2006, as compared to 2005. The decrease in 2006 is due to a greater percentage of Internet sales for which lower commissions are required to be paid. In addition, commissions decreased as a percentage of revenue in QVC-Japan where certain distributors are paid the greater of (i) a fixed fee per subscriber and (ii) a specified percentage of sales. In 2006, more distributors started to receive payments based on sales volume rather than a fixed fee per subscriber. QVC's bad debt provision decreased as a percent of net revenue in 2006 due to lower write-offs on QVC's private label credit card. As a percent of net revenue, order processing and customer service expenses remained constant in 2006, but decreased in each segment in 2005 as compared to 2004. The 2005 decrease is the result of reduced personnel expense due to increased Internet sales, and operator efficiencies in call handling and staffing. QVC's telecommunications expenses as a percent of revenue remained consistent in 2006, but decreased in 2005 due to new contracts with certain of its service providers. Credit card processing fees remained consistent as a percent of net revenue for each of the years ended December 31, 2006, 2005 and 2004.

QVC's SG&A expenses include personnel, information technology, marketing and advertising expenses. Such expenses increased 4.0% and 8.5% during the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year. Due to the fixed cost and discretionary nature of many of these expenses, SG&A expenses increased at a lower rate than revenue in 2006. In addition, QVC settled certain franchise tax audit issues and reversed $15 million of reserves recorded in prior years. The majority of the 2005 increase reflects a $23 million increase in personnel costs due to the addition of employees to support the increased sales of QVC's foreign operations. In addition, statutory sales and use tax increased $6 million in 2005.

QVC's depreciation and amortization expense increased for the years ended December 31, 2006 and 2005. Such increases are due to fixed asset and software additions.

Capital Group

The other tracking stock created in our restructuring is intended to reflect the separate performance of the Capital Group. The Capital Group is comprised of our subsidiaries and assets not attributed to the Interactive Group, including controlling interests in Starz Entertainment, Starz Media, FUN and TruePosition, as well as minority investments in News Corporation, Time Warner Inc., Sprint Nextel Corporation and other public and private companies and $4,580 million principal amount (as of December 31, 2006) of our existing publicly-traded debt.

We acquired the U.S. and U.K. operations of Starz Media from IDT Corporation ("IDT") in August 2006, and the Canadian and Australian operations in September 2006. The aggregate consideration was valued for accounting purposes at $525 million and was comprised of 14.9 million shares of IDT Class B common stock, 7,500 shares of IDT Telecom, Inc., a subsidiary of IDT, and $290 million in cash. Starz Media's operations include animated feature film production, proprietary live action and animated series production, contracted 2D animation production and DVD distribution.

The following discussion and analysis provides information concerning the attributed results of operations and financial condition of the Capital Group. Although our restructuring was not completed until May 9, 2006, the following discussion is presented as though the restructuring had been completed on January 1, 2004. This discussion should be read in conjunction with (1) our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups filed as Exhibit 99.1 to this Annual Report on Form 10-K.

Results of Operations

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Revenue			
Starz Entertainment	$1,033	1,004	963
Corporate and Other	254	141	93
	$1,287	1,145	1,056
Operating Cash Flow (Deficit)			
Starz Entertainment	$ 186	171	239
Corporate and Other	(83)	(47)	(72)
	$ 103	124	167
Operating Income (Loss)			
Starz Entertainment	$ 163	105	148
Corporate and Other	(272)	(77)	(108)
	$ (109)	28	40

Revenue. The Capital Group's combined revenue increased $142 million or 12.4% and $89 million or 8.4% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year. The 2006 increase is due to Starz Entertainment, as well as our acquisitions of Starz Media and FUN, which contributed $86 million and $42 million of revenue, respectively. The 2005 revenue increase was driven primarily by a $77 million increase for TruePosition and a $41 million increase for Starz Entertainment. TruePosition's revenue increased as it continued to increase delivery and acceptance of its equipment in Cingular Wireless's markets.

In November 2006, TruePosition signed an amendment to its existing services contract with Cingular Wireless that requires TruePosition to develop and deliver additional software features. Because vendor specific objective evidence related to the value of these additional features does not exist, TruePosition is required to defer revenue recognition until all of the features have been delivered. TruePosition estimates that these features will be delivered in the first quarter of 2008. Accordingly, TruePosition will not recognize any revenue under this contract until 2008. TruePosition recognized approximately $105 million of revenue under this contract in 2006 prior to signing the amendment.

Operating cash flow. The Capital Group's Operating Cash Flow decreased $21 million or 16.9% and $43 million or 25.7% in 2006 and 2005, respectively, as compared to the corresponding prior year. The decrease in 2006 is due primarily to an operating cash flow deficit generated by Starz Media, as advertising costs for the animated film *Everyone's Hero* exceeded the revenue it earned. The increase in operating cash flow for Starz Entertainment was partially offset by an operating cash flow deficit of $11 million for FUN. The 2005 decrease is due primarily to a $68 million decrease for Starz Entertainment, partially offset by a $30 million improvement for TruePosition.

Impairment of long-lived assets. We acquired our interest in FUN in March 2006. Subsequent to our acquisition, the market value of FUN's stock has declined significantly due to the performance of certain of FUN's subsidiaries and uncertainty surrounding government legislation of Internet gambling which we believe the market perceives as potentially impacting FUN's skill gaming business. In connection with our annual evaluation of the recoverability of FUN's goodwill, we received a third-party valuation, which indicated that the carrying value of FUN's goodwill exceeded its market value. Accordingly, we recognized a $111 million impairment charge related to goodwill and a $2 million impairment charge related to trademarks.

Operating income (loss). The improvement in operating income for Starz Entertainment in 2006 was more than offset by operating losses for Starz Media and FUN, as well as an increase in corporate stock compensation expense. The 2005 decrease in operating income for Starz Entertainment was partially offset by lower amortization of corporate intangibles and lower corporate stock compensation expense.

Starz Entertainment. Historically, Starz Entertainment has provided premium programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States. In addition, Starz Entertainment has launched Vongo, a subscription Internet service which is comprised of Starz and other movie and entertainment content. Vongo also offers content on a pay-per-view basis. Through 2006, virtually all of Starz Entertainment's revenue continues to be derived from the delivery of movies to subscribers under affiliation agreements with television video programming distributors. Some of Starz Entertainment's affiliation agreements provide for payments to Starz Entertainment based on the number of subscribers that receive Starz Entertainment's services. Starz Entertainment also has fixed-rate affiliation agreements with certain of its customers. Pursuant to these agreements, the customers pay an agreed-upon rate regardless of the number of subscribers. The agreed-upon rate is contractually increased annually or semi-annually as the case may be, and these agreements, expire in 2007 through 2012. During the year ended December 31, 2006, 67.8% of Starz Entertainment's revenue was generated by its four largest customers, Comcast, Echostar Communications, DirecTV and Time Warner. Starz Entertainment's affiliation agreement with DirecTV expired on June 30, 2006. In addition, the affiliation agreement with Time Warner, which originally expired on December 31, 2006, has been extended through May 31, 2007 with provisions for further extensions through June 30, 2007. Starz Entertainment is currently in negotiations with DirecTV and Time Warner regarding new agreements. There can be no assurance that any new agreements with DirecTV or Time Warner will have economic terms comparable to the old agreements.

Starz Entertainment's operating results are as follows:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Revenue	$1,033	1,004	963
Operating expenses	(741)	(706)	(603)
SG&A expenses	(106)	(127)	(121)
Operating cash flow	186	171	239
Stock-based compensation	3	(17)	(28)
Depreciation and amortization	(26)	(49)	(63)
Operating income	$ 163	105	148

Starz Entertainment's revenue increased 2.9% and 4.3% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year. The 2006 increase is due to a $56 million increase resulting from an increase in the average number of subscription units for Starz Entertainment's services partially offset by a $27 million decrease due to a decrease in the effective rate for Starz Entertainment services. The 2005 increase in revenue is due to an $85 million increase resulting from a rise in the average number of subscription units for Starz Entertainment's services partially offset by a $52 million decrease due to a reduction in the effective rate for Starz Entertainment's services.

Starz Entertainment's Starz movie service and its Encore and Thematic Multiplex channels ("EMP") movie service are the primary drivers of Starz Entertainment's revenue. Starz average subscriptions increased 5.7% and 6.7% in 2006 and 2005, respectively; and EMP average subscriptions increased 6.6% and 8.0% in 2006 and 2005, respectively. The effects on revenue of these increases in subscriptions units are somewhat mitigated by the fixed-rate affiliation agreements that Starz Entertainment has entered into in recent years.

At December 31, 2006, cable, direct broadcast satellite, and other distribution represented 66.6%, 31.6% and 1.8%, respectively, of Starz Entertainment's total subscription units.

Starz Entertainment's operating expenses increased $35 million or 5.0% and $103 million or 17.1% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year. Such increases are due primarily to increases in programming costs, which increased from $564 million in 2004 to $668 million in 2005 and to $703 million in 2006. The 2006 programming increase is due primarily to $63 million of additional amortization of deposits previously made under certain of its output arrangements. Such amortization was partially offset by a lower cost per title for movies under certain license agreements and a decrease in programming costs due to a lower percentage of first-run movie exhibitions (which have a relatively higher cost per title) as compared to the number of library product exhibitions. The 2005 increase in programming costs is due to (1) a $55 million increase resulting from a higher percentage of first-run movie exhibitions as compared to the number of library product exhibitions in 2005 and (2) a $49 million increase due to a higher cost per title for movie titles under certain of Starz Entertainment's license agreements.

Starz Entertainment expects that its programming costs in 2007 will be 6%-9% lower than the 2006 costs due to Starz Entertainment receiving fewer first-run titles under certain of its output arrangements in 2007. This estimate is subject to a number of assumptions that could change depending on the number and timing of movie titles actually becoming available to Starz Entertainment and their ultimate box office performance. Accordingly, the actual amount of costs experienced by Starz Entertainment may differ from the amounts noted above.

Starz Entertainment's SG&A expenses decreased $21 million or 16.5% and increased $6 million or 5.0% during 2006 and 2005, respectively, as compared to the corresponding prior year. The 2006 decrease is due primarily to lower sales and marketing expenses of $18 million due to the elimination of certain marketing support commitments under the Comcast affiliation agreement and less marketing with other affiliates, partially offset by marketing expenses related to the commercial launch of Vongo. The 2005 increase in SG&A expenses is due to (1) $11 million of consulting and marketing expenses incurred in connection with Starz Entertainment's 2005 development and 2006 launch of Vongo, and (2) a $12 million credit recorded by Starz Entertainment in 2004 related to the recovery of certain accounts receivable from Adelphia Communications and other customers. These increases were offset by a $16 million decrease in sales and marketing as Starz Entertainment participated in fewer national marketing campaigns and obtained reduced marketing commitments under a new affiliation agreement with Comcast in 2005.

Starz Entertainment has outstanding phantom stock appreciation rights held by its former chief executive officer. Compensation relating to the phantom stock appreciation rights has been recorded based upon the estimated fair value of Starz Entertainment. 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 Entertainment.

Quantitative and Qualitative Disclosures about Market Risk.

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

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include investments in fixed and floating rate debt instruments and borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by entering into interest rate swap arrangements and by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We have achieved this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity and (ii) issuing variable rate debt with appropriate maturities and interest rates. As of December 31, 2006, the face amount of the Interactive Group's fixed rate debt (considering the effects of interest rate swap agreements) was $5,374 million, which had a weighted average interest rate of 6.5%. The Interactive Group's variable rate debt of $1,026 million had a weighted average interest rate of 6.1% at December 31, 2006. As of December 31, 2006, the face amount of the Capital Group's fixed rate debt was $4,584 million, which had a weighted average interest rate of 2.6%.

Each of the Interactive Group and the Capital Group is exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. We use equity collars, written put and call options and other financial instruments to manage market risk associated with certain investment positions. These instruments are recorded at fair value based on option pricing models. Equity collars provide us with a put option that gives us the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price at a specified date in the future. Equity collars also provide the counterparty with a call option that gives the counterparty the right to purchase the same securities at a specified price at a specified date in the future. The put option and the call option generally have equal fair values at the time of origination resulting in no cash receipts or payments.

Among other factors, changes in the market prices of the securities underlying our AFS Derivatives affect the fair market value of such AFS Derivatives. The following table illustrates the impact that changes in the market price of the securities underlying our equity collars that have been attributed to the Capital Group would have on the fair market value of such derivatives. Such changes in fair market value would be included in realized and unrealized gains (losses) on financial instruments in our consolidated statement of operations.

	Estimated aggregate fair value		
	Equity collars	Other	Total
	(amounts in millions)		
Fair value at December 31, 2006	$ 802	181	983
5% increase in market prices	$ 663	208	871
10% increase in market prices	$ 521	235	756
5% decrease in market prices	$ 937	154	1,091
10% decrease in market prices	$1,069	127	1,196

At December 31, 2006, the fair value of our AFS securities attributed to the Interactive Group was $2,572 million and the fair value of our AFS securities attributed to the Capital Group was $19,024 million. Had the market price of such securities been 10% lower at December 31, 2006, the aggregate value of such securities would have been $257 million and $1,902 million lower, respectively, resulting in a decrease to unrealized holding gains in other comprehensive earnings. The decrease attributable to the Capital Group would be partially offset by an increase in the value of our AFS Derivatives as noted in the table above.

From time to time and in connection with certain of our AFS Derivatives, we borrow shares of the underlying securities from a counterparty and deliver these borrowed shares in settlement of maturing derivative positions. In these transactions, a similar number of shares that we have attributed to the Capital Group have been posted as collateral with the counterparty. These share borrowing arrangements can be terminated at any time at our option by delivering shares to the counterparty. The counterparty can terminate these arrangements at any time. The liability under these share borrowing arrangements is marked to market each reporting period with changes in value recorded in unrealized gains or losses in the Capital Group's attributed statement of operations. The shares posted as collateral under these arrangements continue to be treated as AFS securities and are marked to market each reporting period with changes in value recorded as unrealized holding gains or losses in other comprehensive earnings.

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

From time to time we enter into debt swaps and swap arrangements with respect to our or third-party public and private indebtedness. Under these arrangements, we initially post collateral with the counterparty equal to a contractual percentage of the value of the referenced securities. We earn interest income based upon the face amount and stated interest rate of the referenced securities, and we pay interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying debt securities declines more than a pre-determined amount, we are required to post cash collateral for the decline, and we record an unrealized loss on financial instruments. The cash collateral is further adjusted up or down for subsequent changes in fair value of the underlying debt security. At December 31, 2006, the aggregate notional amount of debt securities referenced under our debt swap arrangements, which related to $830 million principal amount of certain of our publicly traded debt, was $592 million. As of such date, we had posted cash collateral equal to $109 million. In the event the fair value of the referenced debt securities were to fall to zero, we would be required to post additional cash collateral of $483 million. The posting of such collateral and the related settlement of the agreements would reduce the principal amount of our outstanding debt by $830 million.

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

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

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

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

Our counterparty credit risk by financial institution is summarized below:

Counterparty	Aggregate fair value of derivative instruments at December 31, 2006
	(amounts in millions)
Counterparty A	$ 504
Counterparty B	494
Other	581
	$1,579

Financial Statements and Supplementary Data.

The consolidated financial statements of Liberty Media Corporation are filed under this Item, beginning on Page F-35.

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

None.

Controls and Procedures.

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer, principal accounting officer and principal financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of December 31, 2006 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

See page F-33 for *Management's Report on Internal Control Over Financial Reporting.*

See page F-34 for *Report of Independent Registered Public Accounting Firm* for our accountant's attestation regarding our internal control over financial reporting.

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Other Information.

None.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

The Company assessed the design and effectiveness of internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*.

Based upon our assessment using the criteria contained in COSO, management has concluded that, as of December 31, 2006, Liberty Media Corporation's internal control over financial reporting is effectively designed and operating effectively.

Liberty Media Corporation's independent registered public accountants audited the consolidated financial statements and related disclosures in the Annual Report on Form 10-K and have issued an audit report on management's assessment of the Company's internal control over financial reporting. This report appears on page F-34.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing on page F-33, that Liberty Media Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of Liberty Media Corporation is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Liberty Media Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).Also, in our opinion, Liberty Media Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Liberty Media Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated February 28, 2007 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Denver, Colorado
February 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Media Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Media Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in note 3 to the accompanying consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Liberty Media Corporation's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Denver, Colorado
February 28, 2007

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

	2006	2005*
	(amounts in millions)	
Assets		
Current assets:		
Cash and cash equivalents	$ 3,099	1,896
Trade and other receivables, net	1,276	1,059
Inventory, net	831	719
Program rights	531	599
Financial instruments (note 7)	239	661
Other current assets	241	127
Assets of discontinued operations (note 5)	512	516
Total current assets	6,729	5,577
Investments in available-for-sale securities and other cost investments, including $1,482 million and $1,581 million pledged as collateral for share borrowing arrangements (note 6)	21,622	18,489
Long-term financial instruments (note 7)	1,340	1,123
Investments in affiliates, accounted for using the equity method (note 8)	1,842	1,908
Property and equipment, at cost	1,531	1,196
Accumulated depreciation	(385)	(250)
	1,146	946
Intangible assets not subject to amortization (note 3):		
Goodwill	7,588	6,809
Trademarks	2,471	2,385
	10,059	9,194
Intangible assets subject to amortization, net (note 3)	3,910	3,975
Other assets, at cost, net of accumulated amortization	990	753
Total assets	$47,638	41,965

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2006 and 2005

	2006	2005*
	(amounts in millions)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 508	492
Accrued interest	214	153
Other accrued liabilities	1,035	978
Financial instruments (note 7)	1,484	1,939
Current portion of debt (note 9)	114	1,379
Other current liabilities	113	289
Liabilities of discontinued operations (note 5)	101	114
Total current liabilities	3,569	5,344
Long-term debt (note 9)	8,909	6,370
Long-term financial instruments (note 7)	1,706	1,087
Deferred income tax liabilities (note 10)	9,784	8,696
Other liabilities	1,747	1,058
Total liabilities	25,715	22,555
Minority interests in equity of subsidiaries	290	290
Stockholders' equity (note 11):		
Preferred stock, $.01 par value. Authorized 50,000,000 shares; no shares issued	—	—
Liberty Capital Series A common stock, $.01 par value. Authorized 400,000,000 shares; issued and outstanding 134,503,165 shares at December 31, 2006	1	—
Liberty Capital Series B common stock, $.01 par value. Authorized 25,000,000 shares; issued and outstanding 6,014,680 shares at December 31, 2006	—	—
Liberty Interactive Series A common stock, $.01 par value. Authorized 2,000,000,000 shares; issued and outstanding 623,061,760 shares at December 31, 2006	6	—
Liberty Interactive Series B common stock, $.01 par value. Authorized 125,000,000 shares; issued and outstanding 29,971,039 shares at December 31, 2006	—	—
Series A common stock $.01 par value. Issued and outstanding 2,681,745,985 shares at December 31, 2005	—	27
Series B common stock $.01 par value. Issued 131,062,825 shares at December 31, 2005	—	1
Additional paid-in capital	28,112	29,074
Accumulated other comprehensive earnings, net of taxes ("AOCE") (note 15)	5,943	3,412
AOCE of discontinued operations	9	9
Accumulated deficit	(12,438)	(13,278)
	21,633	19,245
Series B common stock held in treasury, at cost (10,000,000 shares at December 31, 2005)	—	(125)
Total stockholders' equity	21,633	19,120
Commitments and contingencies (note 17)		
Total liabilities and stockholders' equity	$47,638	41,965

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2006, 2005 and 2004

	2006	2005*	2004*
	(amounts in millions, except per share amounts)		
Revenue:			
Net retail sales	$7,326	6,501	5,687
Communications and programming services	1,287	1,145	1,056
	8,613	7,646	6,743
Operating costs and expenses:			
Cost of sales	4,565	4,112	3,594
Operating	1,526	1,397	1,160
Selling, general and administrative, including stock-based compensation (note 3)	806	648	696
Litigation settlement	—	—	(42)
Depreciation	119	92	91
Amortization	463	453	456
Impairment of long-lived assets (note 3)	113	—	—
	7,592	6,702	5,955
Operating income	1,021	944	788
Other income (expense):			
Interest expense	(680)	(626)	(619)
Dividend and interest income	214	143	130
Share of earnings of affiliates, net	91	13	15
Realized and unrealized gains (losses) on financial instruments, net (note 7)	(279)	257	(1,284)
Gains (losses) on dispositions, net (notes 6, 11 and 15)	607	(361)	1,411
Nontemporary declines in fair value of investments (note 6)	(4)	(449)	(129)
Other, net	18	(39)	(26)
	(33)	(1,062)	(502)
Earnings (loss) from continuing operations before income taxes and minority interest	988	(118)	286
Income tax benefit (expense) (note 10)	(252)	126	(159)
Minority interests in earnings of subsidiaries	(27)	(51)	(22)
Earnings (loss) from continuing operations	709	(43)	105
Earnings (loss) from discontinued operations, net of taxes (note 5)	220	10	(59)
Cumulative effect of accounting change, net of taxes (note 3)	(89)	—	—
Net earnings (loss)	$ 840	(33)	46
Net earnings (loss):			
Liberty Series A and Series B common stock	$ 94	(33)	46
Liberty Capital common stock	260	—	—
Liberty Interactive common stock	486	—	—
	$ 840	(33)	46
Basic and diluted earnings (loss) from continuing operations per common share (note 3):			
Liberty Series A and Series B common stock	$ .07	(.02)	.04
Liberty Capital common stock	$ .24	—	—
Liberty Interactive common stock	$ .73	—	—
Basic and diluted net earnings (loss) per common share (note 3):			
Liberty Series A and Series B common stock	$ .03	(.01)	.02
Liberty Capital common stock	$ 1.86	—	—
Liberty Interactive common stock	$ .73	—	—

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

Years ended December 31, 2006, 2005 and 2004

	2006	2005*	2004*
	(amounts in millions)		
Net earnings (loss)	$ 840	(33)	46
Other comprehensive earnings (loss), net of taxes (note 15):			
Foreign currency translation adjustments	111	(5)	20
Recognition of previously unrealized foreign currency translation losses	—	312	—
Unrealized holding gains (losses) arising during the period	2,605	(1,121)	1,490
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	(185)	217	(486)
Reclass unrealized gain on available-for-sale security to equity method investment	—	(197)	—
Other comprehensive earnings (loss) from discontinued operations (note 5)	—	(7)	(54)
Other comprehensive earnings (loss)	2,531	(801)	970
Comprehensive earnings (loss)	$3,371	(834)	1,016
Comprehensive earnings (loss):			
Liberty Series A and Series B common stock	$ 755	(834)	1,016
Liberty Capital common stock	1,787	—	—
Liberty Interactive common stock	829	—	—
	$3,371	(834)	1,016

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006, 2005 and 2004

	2006	2005*	2004*
	(amounts in millions) (see note 4)		
Cash flows from operating activities:			
Net earnings (loss)	$ 840	(33)	46
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Loss (earnings) from discontinued operations	(220)	(10)	59
Cumulative effect of accounting change	89	—	—
Depreciation and amortization	582	545	547
Impairment of long-lived assets	113	—	—
Stock-based compensation	67	52	98
Payments of stock-based compensation	(115)	(103)	(10)
Noncash interest expense	108	101	96
Share of earnings of affiliates, net	(91)	(13)	(15)
Realized and unrealized losses (gains) on financial instruments, net	279	(257)	1,284
Losses (gains) on disposition of assets, net	(607)	361	(1,411)
Nontemporary decline in fair value of investments	4	449	129
Minority interests in earnings of subsidiaries	27	51	22
Deferred income tax benefit	(465)	(389)	(194)
Other noncash charges, net	44	41	20
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions:			
Current assets	(310)	(175)	(532)
Payables and other current liabilities	660	446	647
Net cash provided by operating activities	1,005	1,066	786
Cash flows from investing activities:			
Cash proceeds from dispositions	1,322	49	479
Premium proceeds from origination of derivatives	59	473	193
Net proceeds from settlement of derivatives	101	461	322
Investments in and loans to cost and equity investees	(235)	(24)	(960)
Cash paid for acquisitions, net of cash acquired	(876)	(1)	(91)
Capital expenditures	(278)	(168)	(128)
Net sales (purchases) of short term investments	287	(85)	263
Repurchases of subsidiary common stock	(331)	(95)	(171)
Other investing activities, net	66	(7)	103
Net cash provided by investing activities	115	603	10
Cash flows from financing activities:			
Borrowings of debt	3,229	861	—
Repayments of debt	(2,191)	(1,801)	(1,006)
Repurchases of Liberty common stock	(954)	—	(547)
Other financing activities, net	(20)	89	28
Net cash provided (used) by financing activities	64	(851)	(1,525)
Effect of foreign currency exchange rates on cash	18	(45)	3
Net cash provided to discontinued operations:			
Cash provided by operating activities	62	75	260
Cash used by investing activities	(67)	(110)	(289)
Cash provided by financing activities	6	11	1,005
Change in available cash held by discontinued operations	—	(177)	(1,839)
Net cash provided by (to) discontinued operations	1	(201)	(863)
Net increase (decrease) in cash and cash equivalents	1,203	572	(1,589)
Cash and cash equivalents at beginning of year	1,896	1,324	2,913
Cash and cash equivalents at end of year	$ 3,099	1,896	1,324

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2006, 2005 and 2004

		Common stock											
				Liberty Capital		Liberty Interactive							
	Preferred stock	Series A	Series B	Series A	Series B	Series A	Series B	Additional paid-in capital	AOCE	AOCE from discontinued operations	Accumulated deficit	Treasury stock	Total stockholders' equity
								(amounts in millions)					
Balance at January 1, 2004	$—	27	2	—	—	—	—	38,903	3,233	(32)	(13,291)	—	28,842
Net earnings	—	—	—	—	—	—	—	—	—	—	46	—	46
Other comprehensive earnings (loss)	—	—	—	—	—	—	—	—	1,024	(54)	—	—	970
Issuance of Series A common stock for acquisitions	—	—	—	—	—	—	—	152	—	—	—	—	152
Issuance of Series A common stock in exchange for Series B common stock (note 11)	—	1	(1)	—	—	—	—	125	—	—	—	(125)	—
Acquisition of Series A common stock (note 11)	—	(1)	—	—	—	—	—	(1,016)	—	—	—	—	(1,017)
Amortization of deferred compensation	—	—	—	—	—	—	—	31	—	—	—	—	31
Distribution to stockholders for spin off of Liberty Media International ("LMI") (note 5)	—	—	—	—	—	—	—	(4,512)	(51)	107	—	—	(4,456)
Stock compensation for Liberty options held by LMI employees	—	—	—	—	—	—	—	(4)	—	—	—	—	(4)
Stock compensation for LMI options held by Liberty employees	—	—	—	—	—	—	—	17	—	—	—	—	17
Other	—	—	—	—	—	—	—	5	—	—	—	—	5
Balance at December 31, 2004	—	27	1	—	—	—	—	33,701	4,206	21	(13,245)	(125)	24,586
Net loss	—	—	—	—	—	—	—	—	—	—	(33)	—	(33)
Other comprehensive loss	—	—	—	—	—	—	—	—	(794)	(7)	—	—	(801)
Issuance of Series A common stock for investment in available-for-sale security	—	—	—	—	—	—	—	14	—	—	—	—	14
Amortization of deferred compensation	—	—	—	—	—	—	—	38	—	—	—	—	38
Distribution to stockholders for spin off of Discovery Holding Company ("DHC") (note 5)	—	—	—	—	—	—	—	(4,609)	—	(5)	—	—	(4,614)
Losses in connection with issuances of stock by subsidiaries and affiliates, net of taxes	—	—	—	—	—	—	—	(22)	—	—	—	—	(22)
Issuance of common stock upon exercise of stock options	—	—	—	—	—	—	—	10	—	—	—	—	10
AT&T tax sharing agreement adjustments (note 17)	—	—	—	—	—	—	—	(40)	—	—	—	—	(40)
Adjustment of spin off of LMI	—	—	—	—	—	—	—	(28)	—	—	—	—	(28)
Other	—	—	—	—	—	—	—	10	—	—	—	—	10
Balance at December 31, 2005	—	27	1	—	—	—	—	29,074	3,412	9	(13,278)	(125)	19,120
Net earnings	—	—	—	—	—	—	—	—	—	—	840	—	840
Other comprehensive earnings	—	—	—	—	—	—	—	—	2,531	—	—	—	2,531
Retirement of treasury stock	—	—	—	—	—	—	—	(125)	—	—	—	125	—
Distribution of Liberty Capital and Liberty Interactive common stock to stockholders (notes 1 and 2)	—	(27)	(1)	1	—	7	—	20	—	—	—	—	—
Issuance of common stock upon exercise of stock options	—	—	—	—	—	—	—	4	—	—	—	—	4
Stock compensation	—	—	—	—	—	—	—	62	—	—	—	—	62
Issuance of Liberty Interactive Series A common stock for acquisition	—	—	—	—	—	—	—	36	—	—	—	—	36
Liberty Interactive Series A stock repurchases	—	—	—	—	—	(1)	—	(953)	—	—	—	—	(954)
Other	—	—	—	—	—	—	—	(6)	—	—	—	—	(6)
Balance at December 31, 2006	$—	—	—	1	—	6	—	28,112	5,943	9	(12,438)	—	21,633

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation

On May 9, 2006, Liberty Media Corporation (formerly known as Liberty Media Holding Corporation, "Liberty" or the "Company") completed the previously announced restructuring (the "Restructuring") pursuant to which the Company was organized as a new holding company. In the Restructuring, Liberty became the new publicly traded parent company of Liberty Media LLC (formerly known as Liberty Media Corporation, "Old Liberty"). In the Restructuring, each holder of Old Liberty's common stock received for each share of Old Liberty's Series A common stock held immediately prior to the Restructuring, 0.25 of a share of the Company's Liberty Interactive Series A common stock and 0.05 of a share of the Company's Liberty Capital Series A common stock, and for each share of Old Liberty's Series B common stock held immediately prior to the Restructuring, 0.25 of a share of the Company's Liberty Interactive Series B common stock and 0.05 of a share of the Company's Liberty Capital Series B common stock, in each case, with cash in lieu of any fractional shares. Liberty is the successor reporting company to Old Liberty.

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

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

(2) Tracking Stocks

On May 9, 2006, the stockholders of Old Liberty approved five related proposals which allowed Old Liberty to restructure its company and capitalization. As a result of the Restructuring, all of the Old Liberty outstanding common stock was exchanged for two new tracking stocks, Liberty Interactive common stock and Liberty Capital common stock, issued by Liberty, a newly formed holding company. Each tracking stock issued in the Restructuring is intended to track and reflect the economic performance of one of two newly designated groups, the Interactive Group and the Capital Group, respectively.

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

The term "Interactive Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which Liberty has attributed to that group. The assets and businesses Liberty has attributed to the Interactive Group are those engaged in video and on-line commerce, and include its interests in QVC, Inc. ("QVC"), Provide Commerce, Inc. ("Provide"), BuySeasons, Inc. ("BuySeasons"), Expedia, Inc. and IAC/InterActiveCorp. The Interactive Group will also include such other businesses, assets and liabilities that Liberty's board of directors may in the future determine to attribute to the Interactive Group, including such other businesses and assets as Liberty may acquire for the Interactive Group. In addition, Liberty has attributed $3,108 million principal amount (as of December 31, 2006) of its existing publicly-traded debt to the Interactive Group.

The term "Capital Group" also does not represent a separate legal entity, rather it represents all of Liberty's businesses, assets and liabilities other than those which have been attributed to the Interactive Group. The assets and businesses attributed to the Capital Group include Liberty's subsidiaries: Starz Entertainment, LLC (formerly known as Starz Entertainment Group LLC) ("Starz Entertainment"), Starz Media, LLC (formerly known as IDT Entertainment, Inc.) ("Starz Media"), TruePosition, Inc. ("TruePosition") and FUN Technologies, Inc. ("FUN"); its equity affiliates: GSN, LLC and WildBlue Communications, Inc.; and its interests in News Corporation, Time Warner Inc. and Sprint Nextel Corporation. The Capital Group will also include such other businesses, assets and liabilities that Liberty's board of directors may in the future determine to attribute to the Capital Group, including such other businesses and assets as Liberty may acquire for the Capital Group. In addition, Liberty has attributed $4,580 million principal amount (as of December 31, 2006) of its existing publicly traded debt to the Capital Group.

See Exhibit 99.1 to this Annual Report on Form 10-K for unaudited attributed financial information for Liberty's tracking stock groups.

(3) Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Receivables

Receivables are reflected net of an allowance for doubtful accounts. Such allowance aggregated $72 million and $66 million at December 31, 2006 and 2005, respectively. A summary of activity in the allowance for doubtful accounts is as follows:

	Balance beginning of year	Additions		Deductions-write-offs	Balance end of year
		Charged to expense	Acquisitions		
		(amounts in millions)			
2006	$66	27	14	(35)	72
2005	$63	37	—	(34)	66
2004	$78	19	—	(34)	63

Inventory

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

Program Rights

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

Investment in Films and Television Programs

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

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

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

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

Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale ("AFS") and are carried at fair value. Unrealized holding gains and losses on AFS securities are carried net of taxes as a component of accumulated other comprehensive earnings in stockholders' equity. Realized gains and losses are determined on an average cost basis. Other investments in which the Company's ownership interest is less than 20% and are not considered marketable securities are carried at cost.

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

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

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

Derivative Instruments and Hedging Activities

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

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

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

Liberty accounts for its derivatives pursuant to Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" ("Statement 133") and related amendments and interpretations. All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings and are recognized in the statement of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. During 2006, the Company entered into several interest rate swap agreements to mitigate the cash flow risk associated with interest payments related to certain of its variable rate debt. These interest rate swap arrangements have been designated as cash flow hedges. The Company assesses the effectiveness of its interest rate swaps using the hypothetical derivative method. Hedge ineffectiveness had no impact on earnings for the year ended December 31, 2006. None of the Company's other derivatives have been designated as hedges.

The fair value of the Company's equity collars and other similar derivative instruments is estimated using third party estimates or the Black-Scholes model. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. The Company obtains volatility rates from independent sources based on the expected volatility of the underlying security over the term of the derivative instrument. The volatility assumption is evaluated annually to determine if it should be adjusted, or more often if there are indications that it should be adjusted. A discount rate is obtained at the inception of the derivative instrument and updated each reporting period based on the Company's estimate of the discount rate at which it could currently settle the derivative instrument. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of derivative instruments may differ materially from these estimates.

Property and Equipment

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

Intangible Assets

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

Statement 142 requires the Company to perform an annual assessment of whether there is an indication that goodwill is impaired. To accomplish this, the Company identifies its reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. Statement 142 requires the Company to consider equity method affiliates as separate reporting units. As a result, a portion of the Company's enterprise-level goodwill balance is allocated to various reporting units which include a single equity method investment as its only asset. This allocation is performed for goodwill impairment testing purposes only and does not change the reported carrying value of the investment. However, to the extent that all or a portion of an equity method investment which is part of a reporting unit containing allocated goodwill is disposed of in the future, the allocated portion of goodwill will be relieved and included in the calculation of the gain or loss on disposal.

The Company determines the fair value of its reporting units using independent appraisals, public trading prices and other means. The Company then compares the fair value of each reporting unit to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, the Company compares the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation, to its carrying amount, and records an impairment charge to the extent the carrying amount exceeds the implied fair value.

Goodwill

Changes in the carrying amount of goodwill are as follows:

	QVC	Starz Entertainment	Other	Total
	(amounts in millions)			
Balance at January 1, 2005	$5,264	1,383	156	6,803
Foreign currency translation adjustments	23	—	—	23
Other	(14)	—	(3)	(17)
Balance at December 31, 2005	5,273	1,383	153	6,809
Acquisitions(1)	5	—	878	883
Disposition(2)	—	—	(124)	(124)
Impairment(3)	—	—	(111)	(111)
Foreign currency translation adjustments	60	—	—	60
Other(4)	78	(12)	5	71
Balance at December 31, 2006	$5,416	1,371	801	7,588

(1) During the year ended December 31, 2006, Liberty and its subsidiaries completed several acquisitions, including the acquisition of controlling interests in Provide, FUN, BuySeasons and IDT Entertainment, Inc., for aggregate cash consideration of $876 million, net of cash acquired, the issuance of Liberty common stock and the assumption of debt. In connection with these acquisitions, Liberty recorded goodwill of $883 million which represents the difference between the consideration paid and the estimated fair value of the assets acquired. Such goodwill is subject to adjustment pending completion of the Company's purchase price allocation process, including finalization of third-party valuations.

(2) During the second quarter of 2006, the Company sold its 50% interest in Courtroom Television Network, LLC ("Court TV"). In connection with such sale, the Company relieved $124 million of enterprise-level goodwill that had been allocated to the Court TV investment.

(3) Liberty acquired its interest in FUN in March 2006. Subsequent to its acquisition, the market value of FUN's stock has declined significantly due to the performance of certain of FUN's subsidiaries

and uncertainty surrounding government legislation of Internet gambling which Liberty believes the market perceives as potentially impacting FUN's skill gaming business. In connection with its annual evaluation of the recoverability of FUN's goodwill, Liberty received a third-party valuation, which indicated that the carrying value of FUN's goodwill exceeded its market value. Accordingly, Liberty recognized a $111 million impairment charge related to goodwill.

(4) Other activity for QVC represents Liberty's acquisition of shares of QVC common stock held by employees and officers of QVC. Amounts recorded as goodwill represent the difference between the price paid for such minority interest and the carrying amount of the minority interest less amounts allocated to other intangible assets.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are comprised of the following:

	December 31, 2006			December 31, 2005		
	Gross carrying amount	Net Accumulated amortization	Gross carrying amount	carrying amount	Accumulated amortization	Net carrying amount
			(amounts in millions)			
Distribution rights	$2,699	(981)	1,718	2,628	(788)	1,840
Customer relationships	2,545	(581)	1,964	2,356	(393)	1,963
Other	699	(471)	228	543	(371)	172
Total	$5,943	(2,033)	3,910	5,527	(1,552)	3,975

Amortization of intangible assets with finite useful lives was $463 million, $453 million and $456 million for the years ended December 31, 2006, 2005 and 2004, respectively. Based on its amortizable intangible assets as of December 31, 2006, Liberty expects that amortization expense will be as follows for the next five years (amounts in millions):

2007	$462
2008	$430
2009	$389
2010	$363
2011	$352

Impairment of Long-lived Assets

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

Minority Interests

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

Foreign Currency Translation

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

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

Revenue Recognition

Revenue is recognized as follows:

- Revenue from retail sales is recognized at the time of shipment to customers. An allowance for returned merchandise is provided as a percentage of sales based on historical experience. The total reduction in sales due to returns for the years ended December 31, 2006, 2005 and 2004 aggregated $1,554 million, $1,375 million and $1,165 million, respectively.
- Programming revenue is recognized in the period during which programming is provided, pursuant to affiliation agreements.
- Revenue from sales and licensing of software and related service and maintenance is recognized pursuant to Statement of Position No. 97-2, "*Software Revenue Recognition*." For multiple element contracts with vendor specific objective evidence, the Company recognizes revenue for each specific element when the earnings process is complete. If vendor specific objective evidence does not exist, revenue is deferred and recognized on a straight-line basis over the remaining term of the maintenance period after all other elements have been delivered.
- Revenue relating to proprietary films is recognized in accordance with Statement of Position (SOP) 00-02, *Accounting by Producers or Distributors of Films.* Revenue from the theatrical release of feature films is recognized at the time of exhibition based on the Company's participation in box office receipts. Revenue from television licensing is recognized when the film or program is complete in accordance with the terms of the arrangement, the license period has begun and is available for telecast or exploitation.

Cost of Sales

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

Advertising Costs

Advertising costs generally are expensed as incurred. Advertising expense aggregated $112 million, $45 million and $47 million for the years ended December 31, 2006, 2005 and 2004, respectively. Co-operative marketing costs are recognized as advertising expense to the extent an identifiable benefit is received and fair value of the benefit can be reasonably measured. Otherwise, such costs are recorded as a reduction of revenue.

Stock-Based Compensation

FASB Statement 123R

As more fully described in note 13, the Company has granted to its employees and employees of its subsidiaries options, stock appreciation rights (''SARs'') and options with tandem SARs to purchase shares of Liberty common stock (collectively, ''Awards''). In addition, QVC had granted combination stock options/SARs (''QVC Awards'') to certain of its employees. In December 2004, the Financial Accounting Standards Board (''FASB'') issued Statement of Financial Accounting Standards No. 123 (revised 2004), ''*Share-Based Payment*'' (''Statement 123R''). Statement 123R, which is a revision of Statement of Financial Accounting Standards No. 123, ''*Accounting for Stock-Based Compensation*'' (''Statement 123'') and supersedes Accounting Principles Board Opinion No. 25, ''*Accounting for Stock Issued to Employees*'' (''APB Opinion No. 25''), establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on transactions in which an entity obtains employee services. Statement 123R generally requires companies to measure the cost of employee services received in exchange for an award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the award, and to recognize that cost over the period during which the employee is required to provide service (usually the vesting period of the award). Statement 123R also requires companies to measure the cost of employee services received in exchange for an award of liability instruments (such as stock appreciation rights that will be settled in cash) based on the current fair value of the award, and to remeasure the fair value of the award at each reporting date.

The provisions of Statement 123R allow companies to adopt the standard using the modified prospective method or to restate all periods for which Statement 123 was effective. Liberty has adopted Statement 123R using the modified prospective method.

The Company adopted Statement 123R effective January 1, 2006. In connection with such adoption, the Company recorded an $89 million transition adjustment, which is net of related income taxes of $31 million. Under Statement 123R, the QVC Awards were required to be bifurcated into a liability award and an equity award. Previously, under APB Opinion No. 25, no liability was recorded. The transition adjustment primarily represents the fair value of the liability portion of the QVC Awards at January 1, 2006. The transition adjustment is reflected in the accompanying consolidated statement of operations as the cumulative effect of accounting change. Also, in connection with the adoption of Statement 123R, the Company has eliminated its unearned compensation balance as of January 1, 2004 of $98 million against additional paid-in capital. Compensation expense related to restricted shares granted to certain officers and employees of the Company continues to be recorded as such stock vests.

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

Years ended:	
December 31, 2006	$67
December 31, 2005	$52
December 31, 2004	$98

As of December 31, 2006, the total unrecognized compensation cost related to unvested Liberty equity awards was approximately $59 million. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 2 years.

Pro Forma Disclosure

Prior to adoption of Statement 123R, the Company accounted for compensation expense related to its Awards pursuant to the recognition and measurement provisions of APB Opinion No. 25. All of the Company's Awards were accounted for as variable plan awards, and compensation was recognized based upon the percentage of the options that were vested and the intrinsic value of the options at the balance sheet date. The Company accounted for QVC Awards using fixed-plan accounting. The following table illustrates the effect on earnings from continuing operations and earnings per share for the years ended December 31, 2005 and 2004 as if the Company had applied the fair value recognition provisions of Statement 123 to its options. Compensation expense for SARs and options with tandem SARs was the same under APB Opinion No. 25 and Statement 123. Accordingly, no pro forma adjustment for such Awards is included in the following table.

	Years ended December 31,	
	2005	2004
	(amounts in millions, except per share amounts)	
Earnings (loss) from continuing operations	$ (43)	105
Add stock compensation as determined under the intrinsic value method, net of taxes	2	2
Deduct stock compensation as determined under the fair value method, net of taxes	(42)	(41)
Pro forma earnings (loss) from continuing operations	$ (83)	66
Basic and diluted earnings (loss) from continuing operations per share:		
As reported	$(.02)	.04
Pro forma	$(.03)	.02

Impact of Spin Off Transactions

In connection with the spin off of Liberty subsidiaries Liberty Media International ("LMI") and Discovery Holding Company ("DHC") in 2004 and 2005, respectively, certain employees of Liberty received LMI and DHC options. Liberty records compensation expense related to these awards based on the grant date fair value over the remaining vesting period.

Income Taxes

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

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented.

Liberty Series A and Series B Common Stock

The basic EPS calculation is based on 2,803 million weighted average outstanding shares of Liberty common stock for the period from January 1, 2006 to May 10, 2006, and 2,795 million and 2,856 million weighted average shares outstanding for the years ended December 31, 2005 and 2004, respectively. The diluted EPS calculation for the period from January 1, 2006 to May 10, 2006 and for the year ended December 31, 2004 includes 5 million and 14 million dilutive securities, respectively. However, due to the relative insignificance of these dilutive securities, their inclusion does not impact the EPS amount as reported in the accompanying consolidated statements of operations.

The cumulative effect of accounting change per common share for the period from January 1, 2006 to May 10, 2006 was a loss of $0.03.

Earnings (loss) from discontinued operations per common share is as follows:

January 1, 2006 to May 10, 2006	$ —
Year ended December 31, 2005	$ —
Year ended December 31, 2004	$(.02)

Liberty Capital Common Stock

Liberty Capital EPS for the period from the Restructuring to December 31, 2006 was computed by dividing the net earnings attributable to the Capital Group by the weighted average outstanding shares of Liberty Capital common stock for the period (140 million). Due to the relative insignificance of the dilutive securities for such period, their inclusion does not impact the EPS amount. Excluded from diluted EPS for the period from the Restructuring to December 31, 2006 are approximately 3 million potential common shares because their inclusion would be anti-dilutive.

Earnings from discontinued operations per common share for the period from the Restructuring to December 31, 2006 is $1.62.

Liberty Interactive Common Stock

Liberty Interactive EPS for the period from the Restructuring to December 31, 2006 was computed by dividing the net earnings attributable to the Interactive Group by the weighted average outstanding shares of Liberty Interactive common stock for the period (670 million). Due to the relative insignificance of the dilutive securities for such period, their inclusion does not impact the EPS amount. Excluded from diluted EPS for the period from the Restructuring to December 31, 2006 are approximately 13 million potential common shares because their inclusion would be anti-dilutive.

Reclassifications

Certain prior period amounts have been reclassified for comparability with the 2006 presentation.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Liberty considers (i) the estimate of the fair value of its long-lived assets (including goodwill) and any resulting impairment charges, (ii) its accounting for income taxes, (iii) the fair value of its derivative instruments, (iv) its assessment of nontemporary declines in value of its investments and (v) its estimates of retail related adjustments and allowances to be its most significant estimates.

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

Recent Accounting Pronouncements

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *"Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140"* ("Statement 155"). Statement 155, among other things, amends Statement 133 and permits fair value remeasurement of hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Statement 155 is effective after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company intends to adopt the provisions of Statement 155 effective January 1, 2007 and account for its senior exchangeable debentures at fair value rather than bifurcating such debentures into a debt instrument and a derivative instrument as required by Statement 133. If the Company had adopted Statement 155 as of December 31, 2006, it would have recorded an increase to long-term debt of $1.9 billion, a decrease to long-term derivative instruments of $1.3 billion and an increase to accumulated deficit of $600 million.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109"* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. While the Company has not completed its evaluation of the impact of FIN 48 on its financial statements, it believes that the application of FIN 48 will result in the derecognition of certain tax liabilities currently reflected in the Company's consolidated balance sheet with a corresponding decrease to the Company's accumulated deficit. The Company is unable to quantify the amount of these adjustments at this time.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *"Fair Value Measurements"*("Statement 157"), which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. Statement 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. Liberty is currently evaluating the potential impact of the adoption of Statement 157 on its consolidated balance sheet, statements of operations and comprehensive earnings (loss), and statements of cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115"* ("Statement 159"). Statement 159 permits entities to choose to measure many financial instruments, such as available-for-sale securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the entity's statement of operations. Currently under Statement of Financial Accounting Standards No. 115, entities are required to recognize changes in fair value of available-for-sale securities in the balance sheet in accumulated other comprehensive earnings. Statement 159 is effective as of the beginning of an entity's fiscal year that begins after November 15, 2007. Liberty is currently evaluating the potential impacts of Statement 159 on its financial statements and has not made a determination as to which of its financial instruments, if any, it will choose to apply the provisions of Statement 159.

(4) Supplemental Disclosures to Consolidated Statements of Cash Flows

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Cash paid for acquisitions:			
Fair value of assets acquired	$1,494	1	79
Net liabilities assumed	(227)	—	—
Deferred tax liabilities	(48)	—	—
Minority interest	(72)	—	12
Exchange of cost investment	(235)	—	—
Common stock issued	(36)	—	—
Cash paid for acquisitions, net of cash acquired	$ 876	1	91
Cash paid for interest	$ 510	477	515
Cash paid for income taxes	$ 152	161	49

(5) Discontinued Operations

Sale of OpenTV Corp.

In October 2006, Liberty entered into an agreement with an unaffiliated third party to sell Liberty's controlling interest in OpenTV Corp. ("OPTV") for cash consideration of $132 million. As part of an agreement with OPTV, Liberty would pay up to $20 million of the cash proceeds to OPTV on the first anniversary of the closing, subject to the satisfaction of certain conditions. The sale was consummated on January 16, 2007. OPTV was attributed to the Capital Group.

Sale of Ascent Entertainment Group, Inc.

In December 2006, Liberty entered into an agreement with an unaffiliated third party to sell Liberty's 100% ownership interest in Ascent Entertainment Group, Inc. ("AEG") for $332 million in cash and 2.05 million shares of common stock of the buyer valued at approximately $50 million. AEG's primary operating subsidiary is On Command Corporation. Consummation of the transaction is subject to customary closing conditions, including regulatory approval, and is expected to occur in mid-2007. Subsequent to the closing, if consummated, Liberty would own approximately 9.9% of the buyer's outstanding common stock. AEG was attributed to the Capital Group.

Spin Off of Discovery Holding Company

On July 21, 2005 (the "DHC Spin Off Date"), Liberty completed the spin off (the "DHC Spin Off") of DHC to its shareholders. The DHC Spin Off was effected as a dividend by Liberty to holders of its Series A and Series B common stock of shares of DHC Series A and Series B common stock, respectively. Holders of Liberty common stock on July 15, 2005 received 0.10 of a share of DHC Series A common stock for each share of Liberty Series A common stock owned and 0.10 of a share of DHC Series B common stock for each share of Liberty Series B common stock owned. The DHC Spin Off did not involve the payment of any consideration by the holders of Liberty common stock and is intended to qualify as a tax-free transaction. At the time of the DHC Spin Off, DHC's assets were comprised of Liberty's 100% ownership interest in Ascent Media Group, LLC, Liberty's 50% ownership interest in Discovery Communications, Inc. and $200 million in cash.

Following the DHC Spin Off, DHC and Liberty operate independently, and neither has any stock ownership, beneficial or otherwise, in the other. In connection with the DHC Spin Off, DHC and Liberty entered into certain agreements in order to govern certain of the ongoing relationships between Liberty and DHC after the DHC Spin Off and to provide for an orderly transition. These agreements include a Reorganization Agreement, a Facilities and Services Agreement, a Tax Sharing Agreement and a Short-Term Credit Facility.

The DHC Reorganization Agreement provides for, among other things, the principal corporate transactions required to effect the DHC Spin Off and cross indemnities. Pursuant to the DHC Facilities and Services Agreement, Liberty provides DHC with office space and certain general and administrative services including legal, tax, accounting, treasury, engineering and investor relations support. DHC reimburses Liberty for direct, out-of-pocket expenses incurred by Liberty in providing these services and for DHC's allocable portion of facilities costs and costs associated with any shared services or personnel.

Under the DHC Tax Sharing Agreement, Liberty generally is responsible for U.S. federal, state and local and foreign income taxes owing with respect to consolidated returns which include both Liberty and DHC. DHC is responsible for all other taxes with respect to returns which include DHC, but do not include Liberty whether accruing before, on or after the DHC Spin Off. The DHC Tax Sharing Agreement requires that DHC will not take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the DHC Spin Off from qualifying as a tax-free transaction. Moreover, DHC has indemnified Liberty for any loss resulting from such action or failure to act, if such action or failure to act precludes the DHC Spin Off from qualifying as a tax-free transaction.

Spin Off of Liberty Media International, Inc.

On June 7, 2004 (the "LMI Spin Off Date"), Liberty completed the spin off (the "LMI Spin Off") of its wholly-owned subsidiary, Liberty Media International, Inc., to its shareholders. Substantially all of the assets and businesses of LMI were attributed to Liberty's former International Group segment. In connection with the LMI Spin Off, holders of Liberty common stock on June 1, 2004 received 0.05 of a share of LMI Series A common stock for each share of Liberty Series A common stock owned and 0.05 of a share of LMI Series B common stock for each share of Liberty Series B common stock owned. The LMI Spin Off is intended to qualify as a tax-free spin off. For accounting purposes, the LMI Spin Off is deemed to have occurred on June 1, 2004, and no gain or loss was recognized by Liberty in connection with the LMI Spin Off due to the pro rata nature of the distribution.

Following the LMI Spin Off, LMI and Liberty operate independently. In connection with the LMI Spin Off, LMI and Liberty entered into certain agreements in order to govern certain of the ongoing relationships between Liberty and LMI after the LMI Spin Off and to provide for an orderly transition. These agreements include a Reorganization Agreement and a Tax Sharing Agreement.

The LMI Reorganization Agreement provided for, among other things, the principal corporate transactions required to effect the LMI Spin Off and cross indemnities.

Under the LMI Tax Sharing Agreement, Liberty generally is responsible for U.S. federal, state and local and foreign income taxes owing with respect to consolidated returns which include both Liberty and LMI. LMI is responsible for all other taxes with respect to returns which include LMI, but do not include Liberty whether accruing before, on or after the LMI Spin Off. The LMI Tax Sharing Agreement requires that LMI will not take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the LMI Spin Off from qualifying as a tax-free transaction. Moreover, LMI has indemnified Liberty for any loss resulting from such action or failure to act, if such action or failure to act precludes the LMI Spin Off from qualifying as a tax-free transaction.

In the third quarter of 2005, Liberty filed its 2004 tax return and adjusted the amount of net operating loss and capital loss carryforwards allocated to LMI. Such adjustment resulted in an increase to Liberty's deferred income tax liabilities and a reduction of additional paid-in capital of $28 million.

DMX Music

During the fourth quarter of 2004, the executive committee of the board of directors of Liberty approved a plan to dispose of Liberty's approximate 56% ownership interest in Maxide Acquisition, Inc. (d/b/a DMX Music, "DMX"). On February 14, 2005, DMX commenced proceedings under Chapter 11 of the United States Bankruptcy Code. DMX entered into an arrangement, subject to the approval by the Bankruptcy Court, to sell substantially all of its operating assets to an independent third party. On May 16, 2005, the Bankruptcy Court entered a written order approving the transaction, and the sale transaction was completed. As a result of the DMX Bankruptcy filing, Liberty deconsolidated DMX effective December 31, 2004. In connection with its decision to dispose of its ownership interest, Liberty recognized a $23 million impairment loss to write down the carrying value of the net assets of DMX to their estimated fair value based upon the aforementioned arrangement to sell the assets. Such loss has been included in loss from discontinued operations in the accompanying consolidated financial statements for the year ended December 31, 2004.

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

Certain combined statement of operations information for OPTV, AEG, DHC, LMI and DMX, which is included in earnings (loss) from discontinued operations, is as follows:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Revenue	$335	704	2,081
Loss before income taxes and minority interests	$(30)	(1)	(159)

Liberty's tax basis in the common stock of each of OPTV and AEG as of December 31, 2006 exceeds their respective carrying amounts reported for financial reporting purposes. As of December 31, 2006, Liberty has recognized a deferred tax asset of $236 million for this excess tax basis with an offsetting deferred tax benefit, which is included in earnings from discontinued operations in the accompanying consolidated statement of operations. In 2004, Liberty recognized a similar deferred tax benefit of $38 million related to its tax basis in DMX and reported such benefit in its income tax benefit for continuing operations for the year ended December 31, 2004. Liberty has revised its 2004 presentation to report the deferred tax benefit for DMX as a component of loss from discontinued operations.

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

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

	December 31,	
	2006	2005
	(amounts in millions)	
Capital Group		
News Corporation	$11,158	8,171
Time Warner Inc. ("Time Warner")(1)	3,728	2,985
Sprint Nextel Corporation ("Sprint")(2)	1,651	2,162
Motorola, Inc. ("Motorola")(3)	1,522	1,672
Other AFS equity securities(4)	830	964
Other AFS debt securities(5)	135	372
Other cost investments and related receivables	34	79
Total attributed Capital Group	19,058	16,405
Interactive Group		
IAC/InterActiveCorp ("IAC")	2,572	1,960
Other AFS securities	—	124
Total attributed Interactive Group	2,572	2,084
Consolidated Liberty	21,630	18,489
Less short-term investments	(8)	—
	$21,622	18,489

(1) Includes $198 million and $158 million of shares pledged as collateral for share borrowing arrangements at December 31, 2006 and 2005, respectively.

(2) Includes $170 million and $94 million of shares pledged as collateral for share borrowing arrangements at December 31, 2006 and 2005, respectively.

(3) Includes $1,068 million and $1,173 million of shares pledged as collateral for share borrowing arrangements at December 31, 2006 and 2005, respectively.

(4) Includes $46 million and $156 million of shares pledged as collateral for share borrowing arrangements at December 31, 2006 and 2005, respectively.

(5) At December 31, 2006, other AFS debt securities include $127 million of investments in third-party marketable debt securities held by Liberty parent and $8 million of such securities held by subsidiaries of Liberty. At December 31, 2005, such investments aggregated $372 million and zero, respectively.

News Corporation

In December 2006, Liberty announced that it had entered into an exchange agreement with News Corporation pursuant to which, if completed, Liberty would exchange its approximate 16.2% ownership interest in News Corporation for a subsidiary of News Corporation, which would own News Corporation's approximate 38.5% interest in The DirecTV Group, Inc., three regional sports television networks and approximately $550 million in cash. Consummation of the exchange, which is subject to various closing conditions, including approval by News Corporation's shareholders, regulatory approval and receipt of a favorable ruling from the IRS confirming that the exchange is tax-free, is expected in mid 2007.

In November 2004, Liberty entered into total return equity swaps with a financial institution with respect to 92 million shares of News Corporation voting stock ("NWS"). Pursuant to the terms of the swap, the financial institution acquired the 92 million shares of NWS for Liberty's benefit for a weighted average strike price of $17.48. In December 2004, Liberty elected to terminate the swaps. In connection with such termination, Liberty delivered 86.9 million shares of News Corporation non-voting stock ("NWSA") with a fair market value of $1,608 million in exchange for the 92 million shares of NWS with a fair market value of $1,749 million. Accordingly, Liberty recognized a pre-tax gain on the swap transaction of $141 million, which is included in realized and unrealized gains on financial instruments and a pre-tax gain on the exchange of NWSA for NWS of $710 million, which is included in gains on dispositions. At December 31, 2006, Liberty has an approximate 16.2% economic interest and an approximate 19.1% voting interest in News Corporation.

IAC/InterActiveCorp

Effective August 9, 2005, IAC completed the spin-off of its subsidiary, Expedia, Inc. ("Expedia"). Shareholders of IAC, including Liberty, received one share of Expedia for each share of IAC owned. Subsequent to the spin-off of Expedia, Liberty owned approximately 20% of the outstanding Expedia common stock representing a 52% voting interest. However, under existing governance arrangements, the Chairman of Expedia is currently entitled to vote Liberty's shares of Expedia, subject to certain limitations. As Liberty has appointed two out of ten members of Expedia's board of directors, it accounts for this investment using the equity method of accounting. Liberty allocated its pre-spin off carrying value in IAC between IAC and Expedia based on the relative trading prices of IAC and Expedia. Unrealized holding gains included in the carrying value allocated to Expedia were reversed as part of this allocation.

At December 31, 2006, Liberty owns approximately 24% of IAC common stock representing an approximate 57% voting interest. However, under existing governance arrangements, the Chairman of IAC is currently entitled to vote Liberty's shares, and due to the fact that Liberty has rights to appoint only two of thirteen members to the IAC board of directors, Liberty's ability to exert significant influence over IAC is limited at this time. Accordingly, Liberty accounts for this investment as an AFS security.

Nontemporary Declines in Fair Value of Investments

During the years ended December 31, 2006, 2005 and 2004, Liberty determined that certain of its AFS securities (including News Corporation in 2005) and cost investments experienced nontemporary declines in value. The primary factors considered by Liberty in determining the timing of the recognition for the majority of these impairments was the length of time the investments traded below

Liberty's cost bases and the lack of near-term prospects for recovery in the stock prices. As a result, the carrying amounts of such investments were adjusted to their respective fair values based primarily on quoted market prices at the balance sheet date. These adjustments are reflected as nontemporary declines in fair value of investments in the consolidated statements of operations. The amount of nontemporary decline recognized for Liberty's News Corporation voting shares in 2005 was $352 million.

Unrealized Holdings Gains and Losses

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

	December 31, 2006		December 31, 2005	
	Equity securities	Debt securities	Equity securities	Debt securities
	(amounts in millions)			
Gross unrealized holding gains	$9,335	—	5,459	17
Gross unrealized holding losses	$ (1)	—	(27)	—

The aggregate fair value of securities with unrealized holding losses at December 31, 2006 was $6 million. None of these securities had unrealized losses for more than 12 continuous months.

(7) Financial Instruments

The Company's financial instruments are summarized as follows:

Type of derivative	December 31, 2006	December 31, 2005
	(amounts in millions)	
Assets		
Equity collars	$1,218	1,568
Put spread collars	—	133
Other	361	83
	1,579	1,784
Less current portion	(239)	(661)
	$1,340	1,123
Liabilities		
Borrowed shares	$1,482	1,581
Exchangeable debenture call option obligations	1,280	927
Put options	—	342
Equity collars	416	160
Other	12	16
	3,190	3,026
Less current portion	(1,484)	(1,939)
	$1,706	1,087

Equity Collars and Put Options

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

Borrowed Shares

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

Exchangeable Debenture Call Option Obligations

Liberty has issued senior exchangeable debentures which are exchangeable for the value of a specified number of shares of Sprint and Embarq Corporation common stock, Motorola common stock, Viacom Class B and CBS Corporation Class B common stock or Time Warner common stock, as applicable. (See note 9 for a more complete description of the exchangeable debentures.)

Under Statement 133, the call option feature of the exchangeable debentures is reported separately from the long-term debt portion in Liberty's consolidated balance sheets at fair value. Changes in the fair value of the call option obligations are recognized as unrealized gains (losses) on derivative instruments in Liberty's consolidated statements of operations.

Realized and Unrealized Gains (Losses) on Financial Instruments

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

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Exchangeable debenture call option obligations	$(353)	172	(129)
Equity collars	(59)	311	(941)
Borrowed shares	(32)	(205)	(227)
Put options	—	(66)	2
Other derivatives	165	45	11
	$(279)	257	(1,284)

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

Liberty has various investments accounted for using the equity method. The following table includes Liberty's carrying amount and percentage ownership of the more significant investments in affiliates at December 31, 2006 and the carrying amount at December 31, 2005:

	December 31, 2006		December 31, 2005
	Percentage ownership	Carrying amount	Carrying amount
	(dollar amounts in millions)		
Expedia	21%	$1,254	1,213
GSN	50%	253	255
Court TV	N/A	—	297
Other	various	335	143
		$1,842	1,908

Expedia

IAC completed the spin off of Expedia on August 9, 2005. Accordingly, the Company recorded its share of earnings of Expedia for the five months ended December 31, 2005. The fair value of the

Company's investment in Expedia was $1,452 million and $1,659 million at December 31, 2006 and 2005, respectively. Summarized unaudited financial information for Expedia is as follows:

Consolidated Balance Sheets

	December 31,	
	2006	2005
	(amounts in millions)	
Current assets	$1,183	590
Property and equipment	137	91
Goodwill	5,861	5,860
Intangible assets	1,029	1,177
Other assets	59	39
Total assets	$8,269	7,757
Current liabilities	$1,400	1,438
Deferred income taxes	369	369
Other liabilities	534	144
Minority interest	62	72
Stockholders' equity	5,904	5,734
Total liabilities and equity	$8,269	7,757

Consolidated Statements of Operations

	Years ended December 31,	
	2006	2005
	(amounts in millions)	
Revenue	$2,238	2,119
Cost of revenue	(503)	(480)
Gross profit	1,735	1,639
Selling, general and administrative expenses	(1,273)	(1,116)
Amortization	(111)	(126)
Operating income	351	397
Interest income	32	51
Other income (expense)	1	(33)
Income tax expense	(139)	(186)
Net earnings	$ 245	229

(9) Long-Term Debt

Debt is summarized as follows:

	Outstanding principal December 31, 2006	Carrying value December 31, 2006	Carrying value December 31, 2005
	(amounts in millions)		
Capital Group			
Senior exchangeable debentures			
4% Senior Exchangeable Debentures due 2029	$ 869	254	251
3.75% Senior Exchangeable Debentures due 2030	810	234	231
3.5% Senior Exchangeable Debentures due 2031	600	238	235
3.25% Senior Exchangeable Debentures due 2031	551	119	117
0.75% Senior Exchangeable Debentures due 2023	1,750	1,637	1,552
Subsidiary debt	158	158	37
Total attributed Capital Group	4,738	2,640	2,423
Interactive Group			
Senior notes and debentures			
3.5% Senior Notes due 2006	—	—	121
Floating Rate Senior Notes due 2006	—	—	1,247
7.875% Senior Notes due 2009	670	667	666
7.75% Senior Notes due 2009	234	234	235
5.7% Senior Notes due 2013	802	800	800
8.5% Senior Debentures due 2029	500	495	495
8.25% Senior Debentures due 2030	902	895	895
QVC bank credit facilities	3,225	3,225	800
Other subsidiary debt	67	67	67
Total attributed Interactive Group	6,400	6,383	5,326
Total consolidated Liberty	$11,138	9,023	7,749
Less current maturities		(114)	(1,379)
Total long-term debt		$8,909	6,370

Senior Notes and Debentures

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

The Senior Notes and Senior Debentures are stated net of an aggregate unamortized discount of $17 million at each of December 31, 2006 and 2005. Such discount is being amortized to interest expense in the accompanying consolidated statements of operations.

Senior Exchangeable Debentures

Each $1,000 debenture of Liberty's 4% Senior Exchangeable Debentures is exchangeable at the holder's option for the value of 11.4743 shares of Sprint common stock and .5737 shares of Embarq

Corporation ("Embarq"), which Sprint spun off to its shareholders in May 2006. Liberty may, at its election, pay the exchange value in cash, Sprint and Embarq common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the face amount of the debentures plus accrued interest.

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

Each $1,000 debenture of Liberty's 3.5% Senior Exchangeable Debentures (the "Motorola Exchangeables") is exchangeable at the holder's option for the value of 36.8189 shares of Motorola common stock and, prior to the cash distribution described below, 4.0654 shares of Freescale Semiconductor, Inc. ("Freescale"), which Motorola spun off to its shareholders in December 2004. Such exchange value is payable, at Liberty's option, in cash, Motorola stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the adjusted principal amount of the debentures plus accrued interest. As a result of the cash distribution described below, the adjusted principal amount of each $1,000 debenture is $837.38. Effective December 1, 2006, a consortium of private equity firms purchased all of the common stock of Freescale, including the Freescale common stock owned by Liberty. Pursuant to the terms of the indenture covering the Motorola Exchangeables, Liberty announced that it would make a cash distribution of $162.62 per $1,000 bond to holders of such bonds. Such distribution was made in January 2007, and Liberty reduced its outstanding debt by $97.6 million.

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

Each $1,000 debenture of Liberty's 0.75% Senior Exchangeable Debentures is exchangeable at the holder's option for the value of 57.4079 shares of Time Warner common stock. Liberty may, at its election, pay the exchange value in cash, Time Warner common stock, shares of Liberty common stock or a combination thereof. On or after April 5, 2008, Liberty, at its option, may redeem the debentures, in whole or in part, for shares of Time Warner common stock, cash or any combination thereof equal to the face amount of the debentures plus accrued interest. On March 30, 2008, March 30, 2013 or March 30, 2018, each holder may cause Liberty to purchase its exchangeable debentures, and Liberty, at its election, may pay the purchase price in shares of Time Warner common stock, cash, Liberty common stock, or any combination thereof.

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

In accordance with Statement 133, the call option feature of the exchangeable debentures is reported at fair value and separately from the long-term debt in the consolidated balance sheet. The reported amount of the long-term debt portion of the exchangeable debentures is calculated as the difference between the face amount of the debentures and the fair value of the call option feature on the date of issuance. The long-term debt is accreted to its face amount over the expected term of the debenture using the effective interest method. Accordingly, at December 31, 2006, the difference between the principal amount and the carrying value of the long-term debt portion is the unamortized fair value of the call option feature that was recorded at the date of issuance of the respective debentures. Accretion related to the Company's exchangeable debentures aggregated $95 million, $89 million and $83 million during the years ended December 31, 2006, 2005 and 2004, respectively, and is included in interest expense in the accompanying consolidated statements of operations.

QVC Bank Credit Facilities

Effective May 20, 2005, QVC entered into an unsecured $2 billion bank credit facility. In March 2006, such facility was refinanced with a new unsecured $3.5 billion bank credit facility, which was subsequently amended on October 4, 2006 (the "March 2006 Credit Agreement"). The March 2006 Credit Agreement is comprised of an $800 million U.S. dollar term loan that was drawn at closing, an $800 million U.S. dollar term loan that was drawn on September 18, 2006, a $600 million multi-currency term loan that was drawn in U.S. dollars on September 18, 2006, a $650 million U.S. dollar revolving loan and a $650 million multi-currency revolving loan. The foregoing multi-currency loans can be made, at QVC's option, in U.S. dollars, Japanese yen, U.K. pound sterling or euros. All loans are due and payable on March 3, 2011, and accrue interest at a rate equal to (i) LIBOR for the interest period selected by QVC plus a margin that varies based on QVC's leverage ratio or (ii) the higher of the Federal Funds Rate plus 0.50% or the prime rate announced by JP Morgan Chase Bank, N.A. from time to time. The weighted average interest rate for all borrowings under the March 2006 Credit Agreement at December 31, 2006 was 6.11%. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments.

On October 4, 2006, QVC entered into a new credit agreement (the "October 2006 Credit Agreement"), which provides for an additional unsecured $1.75 billion credit facility, consisting of an $800 million initial term loan made on October 13, 2006 and $950 million of delayed draw term loans to be made from time to time upon the request of QVC. The delayed draw term loans are available until September 30, 2007 and are subject to reductions in the principal amount available starting on March 31, 2007. The loans bear interest at a rate equal to (i) LIBOR for the interest period selected by QVC plus a margin that varies based on QVC's leverage ratio or (ii) the higher of the Federal Funds Rate plus 0.50% or the prime rate announced by Wachovia Bank, N.A. from time to time. The weighted average interest rate for all borrowings under the October 2006 Credit Agreement at December 31, 2006 was 6.10%. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments. The loans are scheduled to mature on October 4, 2011.

The March 2006 Credit Agreement and the October 2006 Credit Agreement contain restrictive covenants, which require among other things, the maintenance of certain financial ratios and include limitations on indebtedness, liens, encumbrances, dispositions, guarantees and dividends. QVC was in compliance with its debt covenants at December 31, 2006. QVC's ability to borrow the unused portion of its credit agreements is dependent on its continuing compliance with such covenants both before and after giving effect to such additional borrowing.

QVC Interest Rate Swap Arrangements

During 2006, QVC entered into seven separate interest rate swap arrangements with an aggregate notional amount of $1,400 million to manage the cash flow risk associated with interest payments on its variable rate debt. The swap arrangements provide for QVC to make fixed payments at a rate of 4.9575% and to receive variable payments at 3 month LIBOR. QVC also entered into three separate interest rate swap arrangements with an aggregate notional amount of $800 million. These swap arrangements provide for QVC to make fixed payments at a rate of 5.2928% and to receive variable payments at 3 month LIBOR. All of the swap arrangements expire in March 2011 contemporaneously with the maturity of the March 2006 Credit Agreement. Liberty accounts for the swap arrangements as cash flow hedges with the effective portions of changes in the fair value reflected in other comprehensive earnings in the accompanying consolidated balance sheet.

Other Subsidiary Debt

Other subsidiary debt at December 31, 2006 is comprised of capitalized satellite transponder lease obligations and Starz Media bank debt.

Five Year Maturities

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

2007	$ 114
2008	$1,768
2009	$ 969
2010	$ 69
2011	$3,240

Fair Value of Debt

Liberty estimates the fair value of its debt based on the quoted market prices for the same or similar issues or on the current rate offered to Liberty for debt of the same remaining maturities. The fair value of Liberty's publicly traded debt is as follows:

	December 31,	
	2006	2005
	(amounts in millions)	
Fixed rate senior notes	$1,678	1,838
Senior debentures	$1,422	1,347
Senior exchangeable debentures, including call option obligation	$4,361	3,858

Liberty believes that the carrying amount of its subsidiary debt, which is primarily variable rate debt, approximated fair value at December 31, 2006.

(10) Income Taxes

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Current:			
Federal	$(513)	(100)	(178)
State and local	(92)	(75)	(61)
Foreign	(112)	(88)	(114)
	(717)	(263)	(353)
Deferred:			
Federal	362	219	123
State and local	99	172	63
Foreign	4	(2)	8
	465	389	194
Income tax benefit (expense)	$(252)	126	(159)

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

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Computed expected tax benefit (expense)	$(336)	59	(92)
Change in estimated foreign and state tax rates	130	147	2
State and local income taxes, net of federal income taxes	(34)	7	(4)
Foreign taxes, net of foreign tax credits	(20)	(31)	(47)
Change in valuation allowance affecting tax expense	76	(40)	(3)
Impairment of goodwill not deductible for tax purposes	(39)	—	—
Disposition of nondeductible goodwill in sales transaction	(43)	—	—
Minority interest	(10)	(10)	(6)
Dividends received deduction	12	12	—
Disqualifying disposition of incentive stock options not deductible for book purposes	14	—	—
Other, net	(2)	(18)	(9)
Income tax benefit (expense)	$(252)	126	(159)

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

	December 31,	
	2006	2005
	(amounts in millions)	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 470	513
Accrued stock compensation	79	90
Other future deductible amounts	485	399
Deferred tax assets	1,034	1,002
Valuation allowance	(93)	(155)
Net deferred tax assets	941	847
Deferred tax liabilities:		
Investments	6,885	6,048
Intangible assets	2,362	2,523
Discount on exchangeable debentures	981	1,006
Other	369	89
Deferred tax liabilities	10,597	9,666
Net deferred tax liabilities	$9,656	8,819

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

	December 31,	
	2006	2005
	(amounts in millions)	
Current deferred tax asset	$ (128)	(46)
Current deferred tax liabilities	—	169
Long-term deferred tax liabilities	9,784	8,696
Net deferred tax liabilities	$9,656	8,819

The Company's valuation allowance decreased $76 million in 2006 related to the recognition of a tax benefit and increased $14 million due to acquisitions.

At December 31, 2006, Liberty had net operating and capital loss carryforwards for income tax purposes aggregating approximately $893 million which, if not utilized to reduce taxable income in future periods, will expire as follows: 2009: $351 million; 2011: $169 million and beyond 2011: $373 million. Of the foregoing net operating and capital loss carryforward amount, approximately $288 million is subject to certain limitations and may not be currently utilized. The remaining $605 million is currently available to be utilized to offset future taxable income of Liberty's consolidated tax group.

Since the date Liberty issued its exchangeable debentures, it has claimed interest deductions on such exchangeable debentures for federal income tax purposes based on the "comparable yield" at which it could have issued a fixed-rate debenture with similar terms and conditions. In all instances, this policy has resulted in Liberty claiming interest deductions significantly in excess of the cash interest currently paid on its exchangeable debentures. In this regard, Liberty has deducted $2,218 million in cumulative interest expense associated with the exchangeable debentures since the Company's 2001 split off from AT&T Corp. ("AT&T"). Of that amount, $629 million represents cash interest payments. Interest deducted in prior years on its exchangeable debentures has contributed to net operating losses ("NOLs") that may be carried to offset taxable income in 2006 and later years. These NOLs and current interest deductions on its exchangeable debentures are being used to offset taxable income currently being generated.

The IRS has issued Technical Advice Memorandums ("TAMs") challenging the current deductibility of interest expense claimed on exchangeable debentures issued by other companies. The TAMs conclude that such interest expense must be capitalized as basis to the shares referenced in the exchangeable debentures. If the IRS were to similarly challenge Liberty's tax treatment of these interest deductions, and ultimately win such challenge, there would be no impact to Liberty's reported total tax expense as the resulting increase in current tax expense would be offset by a decrease in its deferred tax expense. However, Liberty would be required to make current federal income tax payments and may be required to make interest payments to the IRS. These payments could prove to be significant.

(11) Stockholders' Equity

Preferred Stock

Liberty's preferred stock is issuable, from time to time, with such designations, preferences and relative participating, optional or other rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such preferred stock adopted by Liberty's Board of Directors. As of December 31, 2006, no shares of preferred stock were issued.

Common Stock

Liberty's Capital Series A common stock and Interactive Series A common stock each has one vote per share, and its Capital Series B common stock and Interactive Series B common stock each has ten votes per share. Each share of the Series B common stock is exchangeable at the option of the holder for one share of Series A common stock of the same group.

As of December 31, 2006, there were 2.3 million and 1.5 million shares of Liberty Capital Series A common stock and Series B common stock, respectively, reserved for issuance under exercise privileges of outstanding stock options.

As of December 31, 2006, there were 21.5 million and 7.5 million shares of Liberty Interactive Series A common stock and Series B common stock, respectively, reserved for issuance under exercise privileges of outstanding stock options.

In addition to the Liberty Capital Series A and Series B common stock and the Liberty Interactive Series A and Series B common stock, there are 300 million and 1,500 million shares of Liberty Capital Series C and Liberty Interactive Series C common stock, respectively, authorized for issuance. As of December 31, 2006, no shares of either Series C common stock were issued or outstanding.

Prior to the Restructuring, the Company retired the 10,000,000 shares of Liberty Series B common stock held in treasury and returned them to the status of authorized and available for issuance.

Purchases of Common Stock

During the period from May 10, 2006 to December 31, 2006, the Company repurchased 51.6 million shares of Liberty Interactive Series A common stock in the open market for aggregate cash consideration of $954 million. Such shares were repurchased pursuant to a previously announced share repurchase program and have been retired and returned to the status of authorized and available for issuance.

During the period from May 10, 2006 to December 31 2006, the Company sold put options on Liberty Capital Series A common stock and Liberty Interactive Series A common stock for aggregate cash proceeds of approximately $7 million. All such put options expired out of the money prior to December 31, 2006. The Company accounted for these put options pursuant to Statement of Financial Accounting Standards No. 150, *"Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity."* Accordingly, the put options were recorded in derivative instrument liabilities at fair value and changes in the fair value are included in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statement of operations.

During 2005, Liberty sold put options with respect to shares of its Series A common stock for net cash proceeds of $2 million. All such puts expired out of the money in 2006.

During the year ended December 31, 2004, the Company acquired approximately 96.0 million shares of its Series B common stock from the estate and family of the late founder of Liberty's former parent in exchange for approximately 105.4 million shares of Liberty Series A common stock.

On July 28, 2004, Liberty completed a transaction with Comcast pursuant to which Liberty repurchased 120.3 million shares of its Series A common stock (valued at $1,017 million) held by Comcast in exchange for 100% of the stock of Encore ICCP, Inc. ("Encore ICCP"), a wholly owned subsidiary of Liberty. At the time of the exchange, Encore ICCP held Liberty's 10% ownership interest in E! Entertainment Television, Liberty's 100% ownership interest in International Channel Networks, all of Liberty's rights, benefits and obligations under a TCI Music contribution agreement, and $547 million in cash. The transaction also resolved all litigation pending between Comcast and Liberty regarding the TCI Music contribution agreement, to which Comcast succeeded as part of its acquisition of AT&T Broadband in November of 2002. In connection with this transaction, Liberty recognized a pre-tax gain on disposition of assets of $387 million.

During 2004, Liberty entered into zero-strike call spreads ("Z-Call") with respect to six million shares of its Series A common stock. Liberty net cash settled all of its Z-calls during the first quarter of 2005 for net cash proceeds of $63 million, which primarily represented the return of collateral posted by Liberty in 2004. Liberty accounts for the Z-Calls pursuant to Statement No. 150. Changes in the fair value of the Z-Calls are included in realized and unrealized gains (losses) on derivative instruments in the accompanying consolidated statement of operations.

(12) Transactions with Officers and Directors

Chairman's Employment Agreement

The Chairman's employment agreement provides for, among other things, deferral of a portion (not in excess of 40%) of the monthly compensation payable to him for all employment years commencing on or after January 1, 1993. The deferred amounts will be payable in monthly installments over a 20-year period commencing on the termination of the Chairman's employment, together with interest thereon at the rate of 8% per annum compounded annually from the date of deferral to the date of payment. The aggregate liability under this arrangement at December 31, 2006 is $2.0 million, and is included in other liabilities in the accompanying consolidated balance sheet.

The Chairman's employment agreement also provides that in the event of termination of his employment with Liberty, he will be entitled to receive 240 consecutive monthly payments equal to $15,000 increased at the rate of 12% per annum compounded annually from January 1, 1988 to the date payment commences ($115,350 per month as of December 31, 2006). Such payments would commence on the first day of the month succeeding the termination of employment. In the event of the Chairman's death, his beneficiaries would be entitled to receive the foregoing monthly payments. The aggregate liability under this arrangement at December 31, 2006 is $27.7 million, and is included in other liabilities in the accompanying consolidated balance sheet.

The Company's Chairman deferred a portion of his monthly compensation under his previous employment agreement with Tele-Communications, Inc. ("TCI"). The Company assumed the obligation to pay that deferred compensation in connection with the TCI/AT&T Merger in 1999. The deferred obligation (together with interest at the rate of 13% per annum compounded annually), which aggregated $15.7 million at December 31, 2006 and is included in other liabilities in the accompanying consolidated balance sheets, is payable on a monthly basis, following the occurrence of specified events, under the terms of the previous employment agreement. The rate at which interest accrues on the deferred obligation was established in 1983 pursuant to the previous employment agreement.

Other

In September 2000, certain officers of Liberty purchased a 6% common stock interest in a subsidiary for $1.3 million. Such subsidiary owned an indirect interest in an entity that held certain of Liberty's investments in satellite and technology related assets. Liberty and the officers entered into a shareholders agreement in which the officers could require Liberty to purchase, after five years, all or part of their common stock interest in exchange for Liberty Series A stock at the then fair market value. In addition, Liberty had the right to purchase, in exchange for Liberty Series A common stock, the common stock interests held by the officers at fair market value at any time. During 2001, two of the officers resigned their positions with the Company, and the Company purchased their respective interests in the subsidiary for the original purchase price plus 6% interest. In December 2005, Liberty redeemed all of the remaining shares of common stock of the subsidiary from the officers for aggregate cash proceeds of $80.

(13) Stock Options and Stock Appreciation Rights

Liberty—Incentive Plans

Pursuant to the Liberty Media Corporation 2000 Incentive Plan, as amended from time to time (the "Liberty Incentive Plan"), the Company has granted to certain of its employees stock options, SARs and stock options with tandem SARs (collectively, "Awards") to purchase shares of Liberty Capital and Liberty Interactive Series A and Series B common stock. The Liberty Incentive Plan provides for Awards to be made in respect of a maximum of 48 million shares of common stock of Liberty. Liberty issues new shares upon exercise of equity awards.

On December 17, 2002, shareholders of the Company approved the Liberty Media Corporation 2002 Nonemployee Director Incentive Plan, as amended from time to time (the "NDIP"). Under the NDIP, the Liberty Board of Directors (the "Liberty Board") has the full power and authority to grant eligible nonemployee directors stock options, SARs, stock options with tandem SARs, and restricted stock.

Liberty—Grants

Awards granted pursuant to the Liberty Incentive Plan and the NDIP during 2004 through the Restructuring in 2006 are provided in the table below. The exercise prices in the table represent the exercise price on the date of grant and have not been adjusted for the effects of the LMI Spin Off, the DHC Spin Off or the Restructuring, as applicable.

Grant year	Grant group	Grant type	Number of awards granted	Weighted average exercise price	Vesting period	Term	Weighted average grant date fair value
Series A Awards							
2004	Employees	SARs	4,011,450	$ 8.45	5 years	10 years	$4.36
2004	Non-employee directors	SARs	66,000	$11.00	1 year	10 years	$5.84
2005	Employees	Options	9,076,750	$ 8.26	4 years	7 years	$2.34
2005	Non-employee directors	SARs	55,000	$10.36	1 year	10 years	$4.50
2006	Employees	Options	2,473,275	$ 8.24	4 years	7 years	$2.28
2006	Non-employee directors	Options	150,000	$ 8.70	1 year	10 years	$2.74
Series B Awards							
2005	Employees	Options	1,800,000	$ 9.21	3 years	10 years	$4.67

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

The estimated fair values of the options noted above are based on the Black-Scholes model. The key assumptions used in the model for purposes of these calculations generally include the following: (a) a discount rate equal to the Treasury rate for bonds with the same expected term as the Award; (b) a 21% volatility factor; (c) the expected term of the Award; (d) the closing price of the respective common stock on the date of grant; and (e) an expected dividend rate of zero.

Liberty—Outstanding Awards

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

	Liberty Series A common stock	WAEP	Liberty Series B common stock	WAEP
	(numbers of options in thousands)			
Outstanding at January 1, 2006	51,729	$ 9.23	29,965	$10.92
Granted	2,623	$ 8.28	—	
Exercised	(6,659)	$ 0.73	—	
Forfeited	(117)	$18.69	—	
Converted to Liberty Capital and Liberty Interactive	(47,576)	$10.34	(29,965)	$10.92
Outstanding at December 31, 2006	—		—	

	Liberty Capital				Liberty Interactive			
	Series A common stock	WAEP	Series B common stock	WAEP	Series A common stock	WAEP	Series B common stock	WAEP
	(numbers of options in thousands)							
Outstanding at January 1, 2006	—		—		—		—	
Converted from Liberty Series A and Series B	2,378	$ 94.62	1,498	$101.37	11,889	$21.48	7,491	$23.41
Granted	—		—		10,018	$18.04	—	
Exercised	(39)	$ 57.40	—		(187)	$13.06	—	
Forfeited	(21)	$268.28	—		(217)	$34.32	—	
Outstanding at December 31, 2006	2,318	$ 93.24	1,498	$101.37	21,503	$19.71	7,491	$23.41
Exercisable at December 31, 2006	1,620	$100.33	1,438	$102.03	8,393	$22.59	7,191	$23.56

The following table provides additional information about outstanding options to purchase Liberty common stock at December 31, 2006.

	No. of outstanding options (000’s)	WAEP of outstanding options	Weighted average remaining life	Aggregate intrinsic value (000’s)	No. of exercisable options (000’s)	WAEP of exercisable options	Aggregate intrinsic value (000’s)
Capital Series A	2,318	$ 93.24	5.0 years	$25,671	1,620	$100.33	$10,883
Capital Series B	1,498	$101.37	4.4 years	$ 1,171	1,438	$102.03	$ 390
Interactive Series A	21,503	$ 19.71	5.7 years	$60,413	8,393	$ 22.59	$11,942
Interactive Series B	7,491	$ 23.41	4.4 years	$ 950	7,191	$ 23.56	$ 317

Liberty—Exercises

The aggregate intrinsic value of all options exercised during the years ended December 31, 2006, 2005 and 2004 was $52 million, $109 million and $16 million, respectively.

Liberty—Restricted Stock

The following table presents the number and weighted average grant-date fair value ("WAFV") of unvested restricted shares of Liberty common stock held by certain officers and employees of the Company as of December 31, 2006 (numbers of shares in thousands).

	Number of shares	WAFV
Liberty Capital Series A	175	$90.17
Liberty Interactive Series A	747	$22.55

The aggregate fair value of all restricted shares of Liberty common stock that vested during the years ended December 31, 2006, 2005 and 2004 was $30 million, $35 million and less than $1 million, respectively.

QVC Awards

QVC had a qualified and nonqualified combination stock option/stock appreciation rights plan (collectively, the "Tandem Plan") for employees, officers, directors and other persons designated by the Stock Option Committee of QVC's board of directors. Under the Tandem Plan, the option price was generally equal to the fair market value, as determined by an independent appraisal, of a share of the underlying common stock of QVC at the date of the grant. If the eligible participant elected the SAR feature of the Tandem Plan, the participant received 75% of the excess of the fair market value of a share of QVC common stock over the exercise price of the option to which it was attached at the exercise date. QVC applied fixed plan accounting in accordance with APB Opinion No. 25. Under the Tandem Plan, option/SAR terms were ten years from the date of grant, with options/SARs generally becoming exercisable over four years from the date of grant. During the years ended December 31, 2006, 2005 and 2004, QVC received cash proceeds from the exercise of options aggregating $48 million, $46 million and $39 million, respectively. In 2005 and 2004, QVC also repurchased shares of common stock issued upon exercise of stock options in prior years. Cash payments aggregated $71 million and $168 million, respectively, for these repurchases.

On August 14, 2006, QVC terminated the Tandem Plan and offered to exchange Liberty Interactive Share Units, as defined below, for all outstanding unvested QVC Awards as of September 30, 2006 (the "Exchange Offer"). At the time of the Exchange Offer, there were 150,234 outstanding options to purchase QVC common stock. Of those outstanding options, 70,168 were vested and exercisable and 80,066 were unvested. Each holder of unvested QVC options who accepted the Exchange Offer received Liberty Interactive Share Units in an amount equal to the in-the-money value of the exchanged QVC options divided by the closing market price of Liberty Interactive Series A common stock on the trading day preceding commencement of the Exchange Offer. Liberty Interactive Share Units vest on the same vesting schedule as the unvested QVC Awards and represent the right to receive a cash payment equal to the value of Liberty Interactive common stock on the vesting date. All unvested QVC Awards were exchanged for approximately 2,348,000 Liberty Interactive Share Units. Liberty accounted for the Exchange Offer as a settlement of the outstanding unvested QVC Awards. The difference between the fair value of the Liberty Interactive Share Units and the fair value of unvested QVC Awards has been reflected as a reduction to stock-based compensation in the accompanying consolidated statement of operations.

Also on August 14, 2006, a subsidiary of Liberty offered to purchase for cash all outstanding shares of QVC common stock owned by officers and employees of QVC and all vested QVC Awards (the "Tender Offer"). Officers and employees of QVC owned 54,973 shares or 1.09% of QVC common stock at the time of the Tender Offer. The Exchange Offer and the Tender Offer both expired on September 30, 2006. All vested QVC Awards and 49,575 outstanding shares of QVC common stock were tendered as of September 30, 2006 resulting in cash payments aggregating approximately $258 million. The remaining 5,398 shares of QVC common stock were redeemed subsequent to September 30, 2006 for additional aggregate cash payments of approximately $17 million. Liberty accounted for the cash paid for outstanding shares of QVC common stock as the acquisition of a minority interest. The difference between the cash paid and the carrying value of the minority interest was allocated to intangible assets using a purchase accounting model. The cash paid for vested options was less than the carrying value of the related liability. Such difference has been reflected as a reduction to stock-based compensation in the accompanying consolidated statement of operations. The aggregate credit to stock-based compensation for the Exchange Offer and the Tender Offer was $24 million. Subsequent to the completion of the foregoing transactions, Liberty owns 100% of the equity of QVC.

Starz Entertainment

Starz Entertainment has outstanding Phantom Stock Appreciation Rights ("PSARS") held by its former chief executive officer. Such PSARs are fully vested and expire on October 17, 2011, and Starz Entertainment has accrued $130 million as of December 31, 2006 related to the PSARs. Such amount is payable in cash, Liberty common stock or a combination thereof. In December 2005, Starz Entertainment terminated a second PSAR plan for certain of its other executive officers and made cash payments aggregating $7 million upon termination.

Other

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

(14) Employee Benefit Plans

Liberty is the sponsor of the Liberty Media 401(k) Savings Plan (the "Liberty 401(k) Plan"), which provides its employees and the employees of certain of its subsidiaries an opportunity for ownership in the Company and creates a retirement fund. The Liberty 401(k) Plan provides for employees to make contributions to a trust for investment in Liberty common stock, as well as several mutual funds. The Company and its subsidiaries make matching contributions to the Liberty 401(k) Plan based on a percentage of the amount contributed by employees. In addition, certain of the Company's subsidiaries have similar employee benefit plans. Employer cash contributions to all plans aggregated $30 million, $22 million and $22 million for the years ended December 31, 2006, 2005 and 2004, respectively.

(15) Other Comprehensive Earnings (Loss)

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

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

	Foreign currency translation adjustments	Unrealized holding gains (losses) on securities	Accumulated other comprehensive earnings (loss), net of taxes
		(amounts in millions)	
Balance at January 1, 2004	$(286)	3,519	3,233
Other comprehensive earnings	20	1,004	1,024
Contribution to LMI	—	(51)	(51)
Other activity	9	(9)	—
Balance at December 31, 2004	(257)	4,463	4,206
Other comprehensive earnings (loss)	307	(1,101)	(794)
Balance at December 31, 2005	50	3,362	3,412
Other comprehensive earnings	111	2,420	2,531
Balance at December 31, 2006	$ 161	5,782	5,943

Included in Liberty's accumulated other comprehensive earnings (loss) at December 31, 2004 was $123 million, net of income taxes, of foreign currency translation losses related to Cablevisión, S.A. ("Cablevisión"), a former equity method investment of Liberty, and $186 million, net of income taxes, of foreign currency translation losses related to Telewest Global, Inc. ("Telewest"), another former equity method investment of Liberty. In the first quarter of 2005, Liberty disposed of its interests in Cablevisión and Telewest. Accordingly, Liberty recognized in its statement of operations $488 million of foreign currency translation losses (before income tax benefits) related to Cablevisión and Telewest that were previously included in accumulated other comprehensive earnings (loss).

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

	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
	(amounts in millions)		
Year ended December 31, 2006:			
Foreign currency translation adjustments	$ 179	(68)	111
Unrealized holding gains on securities arising during period	4,202	(1,597)	2,605
Reclassification adjustment for holding gains realized in net loss	(298)	113	(185)
Other comprehensive earnings	$ 4,083	(1,552)	2,531
Year ended December 31, 2005:			
Foreign currency translation adjustments	$ (8)	3	(5)
Reclassification adjustment for currency losses realized in net earnings	503	(191)	312
Unrealized holding losses on securities arising during period	(1,808)	687	(1,121)
Reclassification adjustment for holding gains realized in net earnings	350	(133)	217
Reclass unrealized gain on AFS security	(318)	121	(197)
Other comprehensive loss	$(1,281)	487	(794)
Year ended December 31, 2004:			
Foreign currency translation adjustments	$ 33	(13)	20
Unrealized holding losses on securities arising during period	2,443	(953)	1,490
Reclassification adjustment for holding gains realized in net earnings	(797)	311	(486)
Other comprehensive earnings	$ 1,679	(655)	1,024

(16) Transactions with Related Parties

Starz Entertainment pays Revolution Studios ("Revolution"), an equity affiliate, fees for the rights to exhibit films produced by Revolution. Payments aggregated $69 million, $84 million and $99 million in 2006, 2005 and 2004, respectively.

(17) Commitments and Contingencies

Film Rights

Starz Entertainment, a wholly-owned subsidiary of Liberty, provides premium video programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States. Starz Entertainment has entered into agreements with a number of motion picture producers which obligate Starz Entertainment to pay fees ("Programming Fees") for the rights to exhibit certain films that are released by these producers. The unpaid balance of Programming Fees for films that were available for exhibition by Starz Entertainment at December 31, 2006 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2006 is payable as follows: $110 million in 2007; $9 million in 2008; and $8 million thereafter.

Starz Entertainment has also contracted to pay Programming Fees for films that have been released theatrically, but are not available for exhibition by Starz Entertainment until some future date.

These amounts have not been accrued at December 31, 2006. Starz Entertainment's estimate of amounts payable under these agreements is as follows: $538 million in 2007; $148 million in 2008; $93 million in 2009; $87 million in 2010; $31 million in 2011 and $67 million thereafter.

In addition, Starz Entertainment is also obligated to pay Programming Fees for all qualifying films that are released theatrically in the United States by studios owned by The Walt Disney Company ("Disney") through 2009, all qualifying films that are released theatrically in the United States by studios owned by Sony Pictures Entertainment ("Sony") through 2010 and all qualifying films produced for theatrical release in the United States by Revolution through 2006. Films are generally available to Starz Entertainment for exhibition 10-12 months after their theatrical release. The Programming Fees to be paid by Starz Entertainment are based on the quantity and the domestic theatrical exhibition receipts of qualifying films. As these films have not yet been released in theatres, Starz Entertainment is unable to estimate the amounts to be paid under these output agreements. However, such amounts are expected to be significant.

In addition to the foregoing contractual film obligations, each of Disney and Sony has the right to extend its contract for an additional three years. If Sony elects to extend its contract, Starz Entertainment has agreed to pay Sony a total of $190 million in four annual installments of $47.5 million beginning in 2011. This option expires December 31, 2007. If made, Starz Entertainment's payments to Sony would be amortized ratably as programming expense over the extension period beginning in 2011. An extension of this agreement would also result in the payment by Starz Entertainment of Programming Fees for qualifying films released by Sony during the extension period. If Disney elects to extend its contract, Starz Entertainment is not obligated to pay any amounts in excess of its Programming Fees for qualifying films released by Disney during the extension period. The Disney option expires December 31, 2007.

Guarantees

Liberty guarantees Starz Entertainment's obligations under certain of its studio output agreements. At December 31, 2006, Liberty's guarantees for obligations for films released by such date aggregated $695 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, Starz Entertainment has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of Starz Entertainment, a consolidated subsidiary of Liberty, Liberty has not recorded a separate liability for its guarantee of these obligations.

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

Operating Leases

Liberty leases business offices, has entered into satellite transponder lease agreements and uses certain equipment under lease arrangements. Rental expense under such arrangements amounted to $32 million, $33 million and $39 million for the years ended December 31, 2006, 2005 and 2004, respectively.

A summary of future minimum lease payments under noncancelable operating leases as of December 31, 2006 follows (amounts in millions):

Years ending December 31:	
2007	$28
2008	$24
2009	$21
2010	$16
2011	$13
Thereafter	$31

It is expected that in the normal course of business, leases that expire generally will be renewed or replaced by leases on other properties; thus, it is anticipated that future lease commitments will not be less than the amount shown for 2006.

Litigation

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

Other

During the period from March 9, 1999 to August 10, 2001, Liberty was included in the consolidated federal income tax return of AT&T and was a party to a tax sharing agreement with AT&T (the "AT&T Tax Sharing Agreement"). While Liberty was a subsidiary of AT&T, Liberty recorded its stand-alone tax provision on a separate return basis. Under the AT&T Tax Sharing Agreement, Liberty received a cash payment from AT&T in periods when Liberty generated taxable losses and such taxable losses were utilized by AT&T to reduce its consolidated income tax liability. To the extent such losses were not utilized by AT&T, such amounts were available to reduce federal taxable income generated by Liberty in future periods, similar to a net operating loss carryforward, and were accounted for as a deferred federal income tax benefit. Subsequent to Liberty's split off from AT&T, if adjustments are made to amounts previously paid under the AT&T Tax Sharing Agreement, such adjustments are reflected as adjustments to additional paid-in capital. During the period from March 10, 1999 to December 31, 2002, Liberty received cash payments from AT&T aggregating $670 million as payment for Liberty's taxable losses that AT&T utilized to reduce its income tax liability.

Also, pursuant to the AT&T Tax Sharing Agreement and in connection with Liberty's split off from AT&T, AT&T was required to pay Liberty an amount equal to 35% of the amount of the net operating losses reflected in TCI's final federal income tax return ("TCI NOLs") that had not been used as an offset to Liberty's obligations under the AT&T Tax Sharing Agreement and that had been, or were reasonably expected to be, utilized by AT&T. In connection with the split off, Liberty received an $803 million payment for TCI's NOLs and recorded such payment as an increase to additional paid-in capital. Liberty was not paid for certain of TCI's NOLs ("SRLY NOLs") due to limitations and uncertainty regarding AT&T's ability to use them to offset taxable income in the future. In the event AT&T was ultimately able to use any of the SRLY NOLs, they would be required to pay Liberty 35% of the amount of the SRLY NOLs used. In the fourth quarter of 2004 and in connection with the completion of an IRS audit of TCI's tax return for 1994, it was determined that Liberty was required to recognize additional taxable income related to the recapitalization of one of its investments resulting in a tax liability of approximately $30 million. As a result of the tax assessment, Liberty also received a corresponding amount of additional tax basis in the investment. However, Liberty was able to cause AT&T to use a portion of the SRLY NOLs to offset this taxable income, the benefit of which resulted in the elimination of the $30 million tax liability and an increase to additional paid-in capital.

In the fourth quarter of 2004, AT&T requested a refund from Liberty of $70 million, plus accrued interest, relating to losses that it generated in 2002 and 2003 and was able to carry back to offset taxable income previously offset by Liberty's losses. AT&T has asserted that Liberty's losses caused AT&T to pay $70 million in alternative minimum tax ("AMT") that it would not have been otherwise required to pay had Liberty's losses not been included in its return. In 2004, Liberty estimated that it may ultimately pay AT&T up to $30 million of the requested $70 million because Liberty believed AT&T received an AMT credit of $40 million against income taxes resulting from the AMT previously paid. Accordingly, Liberty accrued a $30 million liability with an offsetting reduction of additional paid-in capital. The net effect of the completion of the IRS tax audit noted above (including the benefit derived from AT&T for the utilization of the SRLY NOLs) and Liberty's accrual of amounts due to AT&T was an increase to deferred tax assets and an increase to other liabilities.

In the fourth quarter of 2005, AT&T requested an additional $21 million relating to additional losses it generated and was able to carry back to offset taxable income previously offset by Liberty's losses. In addition, the information provided to Liberty in connection with AT&T's request showed that AT&T had not yet claimed a credit for AMT previously paid. Accordingly, in the fourth quarter of 2005, Liberty increased its accrual by approximately $40 million (with a corresponding reduction of additional paid-in capital) representing its estimate of the amount it may ultimately pay (excluding accrued interest, if any) to AT&T as a result of this request. Although Liberty has not reduced its accrual for any future refunds, Liberty believes it is entitled to a refund when AT&T is able to realize a benefit in the form of a credit for the AMT previously paid.

In March 2006, AT&T requested an additional $21 million relating to additional losses and IRS audit adjustments that it claims it is able to use to offset taxable income previously offset by Liberty's losses. Liberty has reviewed this claim and believes that its accrual as of December 31, 2005 is adequate. Accordingly, no additional accrual was made for AT&T's March 2006 request.

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

(18) Information About Liberty's Operating Segments

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

Liberty evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as revenue, operating cash flow, gross margin, average sales price per unit, number of units shipped and revenue or sales per customer equivalent. In addition, Liberty reviews non-financial measures such as subscriber growth and penetration, as appropriate.

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

For the year ended December 31, 2006, Liberty has identified the following consolidated subsidiaries as its reportable segments:

- QVC—consolidated subsidiary included in the Interactive Group that markets and sells a wide variety of consumer products in the United States and several foreign countries, primarily by means of televised shopping programs on the QVC networks and via the Internet through its domestic and international websites.
- Starz Entertainment—consolidated subsidiary included in the Capital Group that provides premium programming distributed by cable operators, direct-to-home satellite providers, other distributors and via the Internet throughout the United States.

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

Performance Measures

	Years ended December 31,					
	2006		2005		2004	
	Revenue	Operating cash flow	Revenue	Operating cash flow	Revenue	Operating cash flow
	(amounts in millions)					
Interactive Group						
QVC	$7,074	1,656	6,501	1,422	5,687	1,230
Corporate and other	252	24	—	(5)	—	(6)
	7,326	1,680	6,501	1,417	5,687	1,224
Capital Group						
Starz Entertainment	1,033	186	1,004	171	963	239
Corporate and other	254	(83)	141	(47)	93	(72)
	1,287	103	1,145	124	1,056	167
Consolidated Liberty	$8,613	1,783	7,646	1,541	6,743	1,391

Balance Sheet Information

	December 31,			
	2006		2005	
	Total assets	Investments in affiliates	Total assets	Investments in affiliates
	(amounts in millions)			
Interactive Group				
QVC	$19,100	104	15,615	2
Corporate and other	5,661	1,254	4,585	1,227
Intragroup elimination	(4,941)	—	(1,849)	—
	19,820	1,358	18,351	1,229
Capital Group				
Starz Entertainment	2,825	—	2,966	45
Corporate and other	24,512	484	20,268	634
Assets of discontinued operations	512	—	516	—
	27,849	484	23,750	679
Intergroup eliminations	(31)	—	(136)	—
Consolidated Liberty	$47,638	1,842	41,965	1,908

The following table provides a reconciliation of segment operating cash flow to earnings (loss) from continuing operations before income taxes and minority interest:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Consolidated segment operating cash flow	$1,783	1,541	1,391
Stock-based compensation	(67)	(52)	(98)
Litigation settlement	—	—	42
Depreciation and amortization	(582)	(545)	(547)
Impairment of long-lived assets	(113)	—	—
Interest expense	(680)	(626)	(619)
Realized and unrealized gains (losses) on derivative instruments, net	(279)	257	(1,284)
Gains (losses) on dispositions, net	607	(361)	1,411
Nontemporary declines in fair value of investments	(4)	(449)	(129)
Other, net	323	117	119
Earnings (loss) from continuing operations before income taxes and minority interest	$ 988	(118)	286

Revenue by Geographic Area

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

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
United States	$6,504	5,784	5,194
Germany	848	781	643
Other foreign countries	1,261	1,081	906
Consolidated Liberty	$8,613	7,646	6,743

Long-lived Assets by Geographic Area

	December 31,	
	2006	2005
	(amounts in millions)	
United States	$ 678	586
Germany	119	204
Other foreign countries	349	156
Consolidated Liberty	$1,146	946

(19) Quarterly Financial Information (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(amounts in millions, except per share amounts)			
2006:				
Revenue	$1,901	2,025	2,016	2,671
Operating income	$ 224	257	236	304
Earnings from continuing operations	$ 69	482	63	95
Net earnings (loss):				
Series A and Series B common stock	$ (26)	120	—	—
Capital Group common stock	$ —	269	(51)	42
Interactive Group common stock	$ —	89	114	283
Basic and diluted earnings (loss) from continuing operations per common share:				
Series A and Series B common stock	$ .02	.04	—	—
Liberty Capital common stock	$ —	1.94	(.36)	(1.34)
Liberty Interactive common stock	$ —	.13	.17	.43
Basic and diluted net earnings (loss) per common share:				
Series A and Series B common stock	$ (.01)	.04	—	—
Liberty Capital common stock	$ —	1.92	(.36)	.30
Liberty Interactive common stock	$ —	.13	.17	.43
2005:				
Revenue	$1,742	1,760	1,772	2,372
Operating income	$ 215	197	189	343
Earnings (loss) from continuing operations	$ 245	(123)	(86)	(79)
Net earnings (loss)	$ 254	(107)	(94)	(86)
Basic and diluted earnings (loss) from continuing operations per common shares	$ .09	(.05)	(.03)	(.03)
Basic and diluted net earnings (loss) per common share	$ .09	(.04)	(.03)	(.03)

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CORPORATE DATA

Board of Directors

John C. Malone
Robert R. Bennett
Donne F. Fisher
Paul A. Gould
Gregory B. Maffei
David E. Rapley
M. LaVoy Robison
Larry E. Romrell

Executive Committee

Paul A. Gould
Gregory B. Maffei
John C. Malone

Compensation Committee

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Larry E. Romrell

Audit Committee

Donne F. Fisher
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M. Lavoy Robison

Nominating & Corporate Governance Committee:

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Paul A. Gould
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Larry E. Romrell

Incentive Plan Committee:

Donne F. Fisher
Paul A. Gould

Section 16 Exemption Committee:

Donne F. Fisher
Paul A. Gould

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Gregory B. Maffei
President and CEO

Charles Y. Tanabe
Executive Vice President
Secretary
and General Counsel

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Senior Vice President

William R. Fitzgerald
Senior Vice President

David J. A. Flowers
Senior Vice President
and Treasurer

Albert E. Rosenthaler
Senior Vice President

Christopher W. Shean
Senior Vice President
and Controller

Michael P. Zeisser
Senior Vice President

Corporate Headquarters

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Stock Information

Liberty Interactive Group Series A and Series B Common Stock (LINTA/B) and Liberty Capital Group Series A and Series B Common Stock (LCAPA/B) trade on NASDAQ.

CUSIP Numbers

LINTA—53071M 10 4
LINTB—53071M 20 3
LCAPA—53071M 30 2
LCAPB—53071M 40 1

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Liberty on the Internet

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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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