LIBERTY MEDIA LLC
Form 10-K
March 24, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from to

Commission File Number 001-16615

LIBERTY MEDIA LLC

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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LIBERTY MEDIA LLC
2008 ANNUAL REPORT ON FORM 10-K

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PART I.

Item 1. Business.

(a)

General Development of Business

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

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

Recent Developments

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

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

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

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

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

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

* * * * *

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

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

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

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

continued consolidation of the broadband distribution and movie studio industries;

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

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

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

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

(b) *Financial Information About Operating Segments*

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

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

(c) *Narrative Description of Business*

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

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

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

Equity and Cost Method Investments

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

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

QVC, Inc.

QVC, Inc., a wholly-owned subsidiary, markets and sells a wide variety of consumer products in the U.S. and several foreign countries primarily by means of merchandise-focused televised shopping programs and via the Internet through its domestic and international websites. QVC programming is divided into segments that are televised live with a host who presents the merchandise, sometimes with the assistance of a guest who is knowledgeable about the merchandise, and conveys information relating to the product to QVC's viewers. QVC's websites offer a complement to televised shopping by allowing consumers to purchase a wide assortment of goods that were previously offered on the QVC television programs, as well as other items that are available from QVC only via its websites. For the year ended December 31, 2008, approximately 25% of QVC's domestic revenue and approximately 22% of QVC's total revenue was generated from sales of merchandise ordered through its various websites.

QVC offers a variety of merchandise at competitive prices. QVC purchases, or obtains on consignment, products from domestic and foreign manufacturers and wholesalers, often on favorable terms based upon the volume of the transactions. QVC classifies its merchandise into three groups: home, apparel/accessories and jewelry. For the year ended December 31, 2008, home, apparel/accessories and jewelry accounted for approximately 44%, 37% and 19%, respectively, of QVC's net revenue generated by its United States operations. In 2007, such percentages for home, apparel/accessories and jewelry were 44%, 35% and 21%, respectively. QVC offers products in each of these merchandise groups that are exclusive to QVC, as well as popular brand names and other products also available from other retailers. QVC's products are often endorsed by celebrities, designers and other well known personalities. QVC does not depend on any single supplier or designer for a significant portion of its inventory.

QVC distributes its television programs, via satellite or optical fiber, to multichannel video program distributors for retransmission to subscribers in the United States, the United Kingdom, Germany, Japan and neighboring countries that receive QVC's broadcast signals. In the U.S., QVC uplinks its programming from its uplink facility in Pennsylvania to a protected, non-preemptible

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transponder on a domestic satellite. "Protected" status means that, in the event of a transponder failure, QVC's signal will be transferred to a spare transponder or, if none is available, to a preemptible transponder located on the same satellite or, in certain cases, to a transponder on another satellite owned by the same service provider if one is available at the time of the failure. "Non-preemptible" status means that, in the event of a transponder failure, QVC's transponders cannot be preempted in favor of a user of a "protected" failure. QVC's international business units each obtain uplinking services from third parties and transmit their programming to non-preemptible transponders on five international satellites. QVC's transponder service agreement for its domestic transponder expires at the end of the life of the satellite, which is currently estimated to be in 2019. QVC's transponder service agreements for its international transponders expire in 2009 through 2012.

QVC enters into long-term affiliation agreements with satellite and telephone companies and cable television operators who downlink QVC's programming and distribute the programming to their customers. QVC's affiliation agreements with these distributors have termination dates ranging from 2009 to 2017. QVC's ability to continue to sell products to its customers is dependent on its ability to maintain and renew these affiliation agreements in the future. In this regard, QVC's affiliation agreement with Comcast Corporation, which accounts for approximately 25% of QVC's U.S. distribution, expires in June 2009.

In return for carrying the QVC signals, each programming distributor in the United States receives an allocated portion, based upon market share, of up to 5% of the net sales of merchandise sold via the television programs to customers located in the programming distributor's service areas. In the United Kingdom, Germany and Japan, programming distributors receive an agreed-upon annual fee, a monthly fee per subscriber regardless of the net sales or a variable percentage of net sales. In addition to sales-based commissions or per-subscriber fees, QVC also makes payments to distributors in the United States for carriage and to secure favorable positioning on channel 35 or below on the distributor's channel line-up. QVC believes that a portion of its sales are attributable to purchases resulting from channel "browsing" and that a channel position near broadcast networks and more popular cable networks increases the likelihood of such purchases. As a result of the ongoing conversion of analog cable customers to digital, channel positioning has become more critical due to the increased channel options on the digital line-up.

QVC's shopping program is telecast live 24 hours a day to approximately 95 million homes in the United States. QVC Shopping Channel reaches approximately 23 million households in the United Kingdom and the Republic of Ireland and is broadcast 24 hours a day with 17 hours of live programming. QVC's shopping network in Germany, reaches approximately 38 million households throughout Germany and Austria and is broadcast live 24 hours a day. QVC Japan, QVC's joint venture with Mitsui & Co., LTD, reaches approximately 22 million households and is broadcast live 24 hours a day. QVC strives to maintain promptness and efficiency in order taking and fulfillment. QVC has four domestic phone centers that can direct calls from one call center to another as volume mandates, which reduces a caller's hold time, helping to ensure that orders will not be lost as a result of hang-ups. In November 2008, QVC announced the closing of its West Chester, PA call center which will occur in March 2009. QVC also has one phone center in each of the United Kingdom and Japan and two call centers in Germany. QVC also utilizes computerized voice response units, which handle approximately 33% of all orders taken. QVC has eight distribution centers worldwide and is able to ship approximately 95% of its orders within 48 hours.

QVC's business is seasonal due to a higher volume of sales in the fourth calendar quarter related to year-end holiday shopping. In recent years, QVC has earned 22%-23% of its revenue in each of the first three quarters of the year and 32%-33% of its revenue in the fourth quarter of the year.

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Starz Entertainment, LLC

Starz Entertainment, LLC, a wholly-owned subsidiary, provides premium movie networks and programming distributed by cable, direct-to-home satellite, telephony, the Internet and other distribution media providers in the United States. Starz Entertainment's principal service offerings are (1) Starz, which is primarily a first-run movie service that generally includes Starz plus five multiplex channels branded with the Starz name, each of which exhibits movies targeted to a specific audience and (2) Encore, which airs first-run movies and classic contemporary movies and generally includes six additional thematic multiplex channels branded with the Encore name, each of which exhibits movies based upon individual themes. Starz can be purchased by subscribers as an à-la-carte premium service for which subscribers pay a separate monthly charge. Distributors may also package Starz with other premium services. Encore can be purchased by subscribers as part of a digital package, which includes other movie services or a variety of general entertainment digital networks. Distributors may also sell Encore on an à-la-carte basis or packaged with Starz. Starz Entertainment's services also include MoviePlex, a "theme by day" channel featuring a different thematic multiplex channel each day, on a weekly rotation; IndiePlex, featuring art house and independent films; RetroPlex, featuring "classic" movies; Starz On Demand; Encore on Demand; MoviePlex On Demand; high definition feeds of several Starz channels and high definition versions of each of Starz On Demand, Encore On Demand and MoviePlex On Demand. Starz Entertainment also offers Starz Play, an Internet complement to Starz, to cable and telephone companies who offer high speed services and other distributors. As of December 31, 2008, Starz Entertainment had 17.7 million Starz subscribers and 31.7 million Encore subscribers.

Programming networks distribute their services through a number of distribution technologies, including cable television, direct-to-home satellite, broadcast television, telephone networks and the Internet. Programming services may be delivered to subscribers as part of a video distributor's analog or digital package of programming services for a fixed monthly fee, or may be delivered individually as a "premium" programming service for a separate monthly charge. Premium services may be scheduled or "on-demand." Additionally, single programs or movies may be delivered on a pay-per-view basis for a per program fee. Whether a programming service is basic, premium or pay-per-view, the programmer generally enters into separate multi-year affiliation agreements with those distributors that agree to carry the service. Programmers may also provide their pay-per-view and subscription on-demand services directly to consumers via the Internet. Basic programming services derive their revenue principally from the sale of advertising time on their networks and from per subscriber license fees received from distributors. Their continued ability to generate both advertising revenue and subscriber license fees is dependent on these services' ability to maintain and renew their affiliation agreements. Premium and pay-per-view services do not sell advertising and primarily generate their revenue from subscriber fees.

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

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

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

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

Starz Media, LLC

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

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

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

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

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

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

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

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

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

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

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

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

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

Provide Commerce, Inc.

Provide Commerce, Inc., a wholly-owned subsidiary that we acquired in February 2006, operates an e-commerce marketplace of websites that offers high-quality perishable products direct from suppliers to consumers. In addition to its perishable products, Provide Commerce sells a wide range of unique and personalized gifts through its RedEnvelope brand, which it acquired in 2008. Provide Commerce combines an online storefront, proprietary supply chain management technology, established supplier relationships and integrated logistical relationships with Federal Express Corporation and United Parcel Service, Inc. to create a market platform that bypasses traditional supply chains of wholesalers, distributors and retailers. Provide Commerce derives its revenue from the sale of flowers and plants on its proflowers.com website and from the sale of gourmet foods from its branded websites: Cherry Moon Farms, for fresh premium fruits; Secret Spoon, for fresh sweets and confections; and Shari's Berries, for chocolate-dipped berries and related gifting products. Provide Commerce also enters into arrangements with businesses desiring to offer high-quality, time-sensitive or perishable products to customers on a co-branded or private label basis, designing and hosting dedicated websites on behalf of such clients.

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

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

Backcountry.com, Inc.

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

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

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

Bodybuilding.com, LLC

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

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

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

BuySeasons, Inc.

BuySeasons, Inc., a wholly-owned subsidiary that we acquired in August 2006, operates BuyCostumes.com and CelebrateExpress.com, on-line retailers of costumes, accessories and party supplies for a wide variety of celebration and costuming events. Celebrate Express was acquired by BuySeasons in 2008. BuySeasons earns revenue from the sale of its products to retail customers who order from its websites and, to a lesser degree, through its fulfillment sales to other retailers. BuySeasons has exclusive arrangements to purchase costumes and accessories that are only available from BuySeasons and works with manufacturers to design costumes and accessories for which BuySeasons has exclusive rights for a predetermined period of time. Additionally, BuySeasons has several exclusive license agreements for party supplies which are developed and manufactured by BuySeasons. These items are primarily distributed through the Celebrate Express brands. While over 75% of BuySeason's products are also available from other on-line and traditional brick-and-mortar retailers, BuySeasons believes that no other single retailer offers the range of costume and party accessories that BuySeasons offers to its customers. BuySeasons purchases its products from various suppliers, both domestic and international. BuySeasons depends on three suppliers for approximately 35% of its costumes, accessories, and party supplies. The loss of any of these suppliers could adversely impact BuySeasons.

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

Liberty Sports Holdings, LLC

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

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

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

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

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

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

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FUN Technologies, Inc.

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

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

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

PicksPal, Inc.

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

Atlanta National League Baseball Club, Inc.

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

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

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

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

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

TruePosition, Inc.

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

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

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

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

Leisure Arts, Inc.

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

WFRV and WJMN Television Station, Inc.

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

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

The DIRECTV Group, Inc.

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

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

DIRECTV Latin America. DIRECTV Latin America, or DTVLA, is a leading provider of DTH digital television services throughout Latin America. DTVLA is comprised of: PanAmericana, which provides services in Venezuela, Argentina, Chile, Colombia, Puerto Rico and certain other

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countries in the region through DIRECTV's wholly-owned subsidiary, DIRECTV Latin America, LLC, or DLA LLC; its 74% owned subsidiary, Sky Brasil Servicos Ltda., which we refer to as Sky Brazil; and its 41% equity method investment in Innova, S. de R.L. de C.V., or Sky Mexico. As of December 31, 2008, PanAmericana had approximately 2.0 million subscribers, Sky Brazil had approximately 1.6 million subscribers and Sky Mexico had approximately 1.8 million subscribers.

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

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

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

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

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

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

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

Expedia, Inc.

Expedia, Inc. is among the world's leading travel services companies, making travel products and services available to leisure and corporate travelers in the United States and abroad through a diversified portfolio of brands, including Expedia.com, Hotels.com, Hotwire.com, Egencia, Classic Vacations and TripAdvisor and a range of other domestic and international brands and businesses. Expedia's various brands and businesses target the needs of different consumers, including those who are focused exclusively on price and those who are focused on the breadth of product selection and quality of services. Expedia has created an easily accessible global travel marketplace, allowing customers to research, plan and book travel products and services from travel suppliers and allows these travel suppliers to efficiently reach and provide their products and services to Expedia customers. Through its diversified portfolio of domestic and international brands and businesses, Expedia makes available, on a stand-alone and package basis, travel products and services provided by numerous airlines, lodging properties, car rental companies, cruise lines and destination service providers, such as attractions and tours. Using a portfolio approach for Expedia's brands and businesses allows it to target a broad range of customers looking for different value propositions. Expedia reaches many customers in several countries and multiple continents through its various brands and businesses, typically customizing international points of sale to reflect local language, currency, customs, traveler behavior and preferences and local hotel markets, all of which may vary from country to country.

Expedia generates revenue by reserving travel services as the merchant of record and reselling these services to customers at a profit. Expedia also generates revenue by passing reservations booked by its customers to the relevant services for a fee or commission and from advertising on its websites.

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

IAC/InterActiveCorp

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

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

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

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

HSN, Inc.

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

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

Interval Leisure Group, Inc.

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

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

Ticketmaster Entertainment, Inc.

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

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

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

Tree.com, Inc.

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

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

GSN, LLC

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

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

We and Sony Pictures Entertainment, a division of Sony Corporation of America, which is a subsidiary of Sony Corporation, each own 50% of Game Show Network, LLC. GSN's day-to-day operations are managed by a management committee of its board of managers. Pursuant to GSN's operating agreement, we and Sony each have the right to designate half of the members of the management committee. Also pursuant to the operating agreement, we and Sony have agreed that direct transfers of our interests in GSN and certain indirect transfers that result in a change of control of the transferring party are subject to a right of first refusal in favor of the non-transferring member.

WildBlue Communications, Inc.

WildBlue Communications, Inc. delivers two-way broadband Internet access via satellite to homes and small businesses in rural markets underserved by terrestrial broadband alternatives. WildBlue provides coverage across the continental United States in the Ka spectrum band using a 26-inch outdoor unit and satellite modem. WildBlue has a prepaid license for Ka-band capacity on Anik F2, which was launched in July 2004. WildBlue owns outright its second satellite, WildBlue-1, which was launched in December 2006. Both of WildBlue's satellites are geo stationary satellites. The expected life of Anik F2 and WildBlue-1 is approximately 15 years and 12 years, respectively.

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

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

Regulatory Matters

Programming and Interactive Television Services

In the United States, the FCC regulates the providers of satellite communications services and facilities for the transmission of programming services, the cable television systems and other multichannel video programming distributors ("MVPDs") that distribute such services, and, to some extent, the availability of the programming services themselves through its regulation of program licensing. Cable television systems in the United States are also regulated by municipalities or other state and local government authorities. Cable television systems are currently subject to federal rate regulation on the provision of basic service, except where subject to effective competition under FCC rules, and continued rate regulation or other franchise conditions could place downward pressure on the fees cable television companies are willing or able to pay for programming services in which we have interests. Regulatory carriage requirements also could adversely affect the number of channels available to carry the programming services in which we have an interest.

Regulation of Program Licensing. The Cable Television Consumer Protection and Competition Act of 1992 (the 1992 Cable Act) directed the FCC to promulgate regulations regarding the sale and acquisition of cable programming between MVPDs (including cable operators) and satellite-delivered programming services in which a cable operator has an attributable interest. The legislation and the implementing regulations adopted by the FCC preclude virtually all exclusive programming contracts between cable operators and satellite programmers affiliated with any cable operator (unless the FCC first determines that the contract serves the public interest) and generally prohibit a cable operator that has an attributable interest in a satellite programmer from improperly influencing the terms and conditions of sale to unaffiliated MVPDs. Further, the 1992 Cable Act requires that such affiliated programmers make their programming services available to cable operators and competing MVPDs such as multi-channel multi-point distribution systems, which we refer to as MMDS, and direct broadcast satellite ("DBS") distributors on terms and conditions that do not unfairly discriminate among distributors. The Telecommunications Act of 1996 extended these rules to programming services in which telephone companies and other common carriers have attributable ownership interests. The FCC revised its program licensing rules by implementing a damages remedy in situations where the defendant knowingly violates the regulations and by establishing a timeline for the resolution of complaints, among other things. Although we no longer own Liberty Cablevision of Puerto Rico Ltd. ("LCPR"), FCC rules continue to attribute an ownership interest in LCPR to us, thereby subjecting us and satellite-delivered programming services in which we have an interest to the program access rules. As explained below in "DBS Regulation," we are also subject to the program access rules as a condition of FCC approval of our transaction with News Corporation in 2008. In 2007, the FCC extended the prohibition on exclusive programming contracts until 2012 and amended the program access complaint rules. The FCC also has initiated a rulemaking proceeding to consider additional revisions to its program access rules, including, among others, changes in the complaint procedures, restrictions on the bundling of programming services to distributors and the extension of the rules to terrestrially-delivered programming.

Regulation of Carriage of Programming. Under the 1992 Cable Act, the FCC has adopted regulations prohibiting cable operators from requiring a financial interest in a programming service as a condition to carriage of such service, coercing exclusive rights in a programming service or favoring affiliated programmers so as to restrain unreasonably the ability of unaffiliated programmers to compete.

Regulation of Ownership. The 1992 Cable Act required the FCC, among other things, (1) to prescribe rules and regulations establishing reasonable limits on the number of channels on a cable system that will be allowed to carry programming in which the owner of such cable system has an attributable interest and (2) to consider the necessity and appropriateness of imposing limitations on the degree to which MVPDs (including cable operators) may engage in the creation or production of video programming. In 1993, the FCC adopted regulations limiting carriage by a cable operator of national programming services in which that operator holds an attributable interest. However, in 2001, the United States Court of Appeals for the District of Columbia Circuit found that the FCC had failed to justify adequately the channel occupancy limit, vacated the FCC's decision and remanded the rule to the FCC for further consideration. In response to the Court's decision, the FCC issued further notices of proposed rulemaking in 2001 and in 2005 to consider channel occupancy limitations. Even if these rules were readopted by the FCC, they would have little impact on programming companies in which we have interests based upon our current attributable ownership interests in cable systems. In its 2001 decision, the Court of Appeals also vacated the FCC's rule imposing a thirty percent limit on the number of subscribers served by systems nationwide in which a multiple system operator can have an attributable ownership interest. After conducting a further rulemaking regarding this ownership limitation, in 2007, the FCC again adopted a thirty percent limit on the number of subscribers served by a cable operator nationwide.

Regulation of Carriage of Broadcast Stations. The 1992 Cable Act granted broadcasters a choice of must carry rights or retransmission consent rights. The rules adopted by the FCC generally provided for mandatory carriage by cable systems of all local full-power commercial television broadcast signals selecting must carry rights and, depending on a cable system's channel capacity, non-commercial television broadcast signals. Such statutorily mandated carriage of broadcast stations coupled with the provisions of the Cable Communications Policy Act of 1984, which require cable television systems with 36 or more "activated" channels to reserve a percentage of such channels for commercial use by unaffiliated third parties and permit franchise authorities to require the cable operator to provide channel capacity, equipment and facilities for public, educational and government access channels, could adversely affect some or substantially all of the programming services in which we have interests by limiting the carriage of such services in cable systems with limited channel capacity. In 2001, the FCC adopted rules relating to the cable carriage of digital television signals, including rules clarifying that a digital-only television station can assert a right to analog or digital carriage on a cable system. In

2005, the FCC denied mandatory dual carriage of a television station's analog and digital signals during the digital television transition and also denied mandatory carriage of all of a television station's digital signals, other than its "primary" signal. Television station owners continue to seek reconsideration of the FCC's decision and may seek judicial review or legislative change of the FCC's decision. In 2007, the FCC adopted an order addressing cable operators' obligations to ensure that local broadcasters' primary video and program-related material are viewable by all subscribers following completion of the digital transition. The FCC's order allows cable operators to comply with the viewability requirements by carrying a broadcaster's digital signal in either analog format or digital format, provided that all subscribers have the necessary equipment to view the broadcast content. The viewability requirements extend to February 2012, and during 2011, the FCC will review the requirements based upon the state of technology and the marketplace.

Closed Captioning and Video Description Regulation. The Telecommunications Act of 1996 also required the FCC to establish rules and an implementation schedule to ensure that video programming is fully accessible to the hearing impaired through closed captioning. The rules adopted by the FCC require substantial closed captioning over an eight to ten year phase-in period, which began in 2000, with only limited exemptions. As a result, the programming companies in which we have interests may incur additional costs for closed captioning.

A-La-Carte Proceeding. In 2004, the FCC's Media Bureau conducted a notice of inquiry proceeding regarding the feasibility of selling video programming services "à-la-carte," i.e. on an individual or small tier basis. The Media Bureau released a report in 2004, which concluded that à-la-carte sales of video programming services would not result in lower video programming costs for most consumers and that they would adversely affect video programming networks. In 2006, the Media Bureau released a new report which stated that the 2004 report was flawed and which concluded that à-la-carte sales could be in the best interests of consumers. Although the FCC's authority to mandate à-la-carte sales has been questioned, its endorsement of the concept could encourage Congress to consider proposals to mandate à-la-carte sales or otherwise seek to impose greater regulatory controls on how programming is sold by MVPDs. The programming companies whose services are distributed in tiers or packages of programming services would experience decreased distribution if à-la-carte carriage were mandated.

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

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

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

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

Copyright Regulation. The programming companies in which we have interests must obtain any necessary music performance rights from the rights holders. These rights generally are controlled by the music performance rights organizations of the American Society of Composers, Authors and Publishers (ASCAP), Broadcast Music, Inc. (BMI) and the Society of European Stage Authors and Composers (SESAC), each with rights to the music of various artists.

Satellites and Uplink. In general, authorization from the FCC must be obtained for the construction and operation of a communications satellite. The FCC authorizes utilization of satellite orbital slots assigned to the United States by the World Administrative Radio Conference. Such slots are finite in number, thus limiting the number of carriers that can provide satellite transponders and the number of transponders available for transmission of programming services. At present, however, there are numerous competing satellite service providers that make transponders available for video services to MVPDs. The FCC also regulates the earth stations uplinking to and/or downlinking from such satellites.

Internet Services

The Internet businesses in which we have interests are subject, both directly and indirectly, to various laws and governmental regulations. Certain of our subsidiaries engaged in the provision of goods and services over the Internet must comply with federal and state laws and regulations applicable to online communications and commerce. For example, the Children's Online Privacy Protection Act prohibits web sites from collecting personally identifiable information online from children under age 13 without parental consent and imposes a number of operational requirements. Certain email activities are subject to the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, commonly known as the CAN-SPAM Act. The CAN-SPAM Act regulates the sending of unsolicited commercial email by requiring the email sender, among other things, to comply with specific disclosure requirements and to provide an "opt-out" mechanism for recipients. Both of these laws include statutory penalties for non-compliance. Various states also have adopted laws regulating certain aspects of Internet communications. Goods sold over the Internet also must comply with traditional regulatory requirements, such as the Federal Trade Commission requirements regarding truthful and accurate claims. In 2007, Congress enacted legislation extending the moratorium on state and local taxes on Internet access and commerce until 2014.

Congress and individual states may consider additional online privacy legislation. Other Internet-related laws and regulations enacted in the future may cover issues such as defamatory speech, copyright infringement, pricing and characteristics and quality of products and services. The future adoption of such laws or regulations may slow the growth of commercial online services and the Internet, which could in turn cause a decline in the demand for the services and products of the Internet companies in which we have interests and increase such companies' costs of doing business or otherwise have an adverse effect on their businesses, operating results and financial conditions. Moreover, the applicability to commercial online services and the Internet of existing laws governing issues such as property ownership, libel, personal privacy and taxation is uncertain and could expose these companies to substantial liability.

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DBS Regulation

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

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

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

Other Regulation

We also have significant ownership interests on a cost basis in other entities, such as Sprint Nextel Corporation, which are extensively regulated. For example, Sprint Nextel is subject not only to federal regulation but also to regulation in varying degrees, depending on the jurisdiction, by state and local regulatory authorities.

Proposed Changes in Regulation

The regulation of programming services, cable television systems, DBS providers, broadcast television licensees and Internet services is subject to the political process and has been in constant flux over the past decade. Further material changes in the law and regulatory requirements must be anticipated and there can be no assurance that our business will not be adversely affected by future legislation, new regulation or deregulation.

Competition

Our businesses that engage in video and on-line commerce compete with traditional offline and online retailers ranging from large department stores to specialty shops, other electronic retailers, direct marketing retailers, such as mail order and catalog companies, and discount retailers. In addition, QVC and HSN compete for access to customers and audience share with other conventional forms of entertainment and content. Provide Commerce competes with online floral providers such as 1-800-FLOWERS and Hallmark Flowers and floral wire services such as FTD and Teleflora. We believe that the principal competitive factors in the markets in which our electronic commerce businesses compete are high-quality products, freshness, brand recognition, selection, value, convenience, price, website performance, customer service and accuracy of order shipment.

Our businesses that distribute programming for cable and satellite television compete with other programmers for distribution on a limited number of channels. Increasing concentration in the multichannel video distribution industry could adversely affect the programming companies in which we have interests by reducing the number of distributors to whom they sell their programming, subjecting more of their programming sales to volume discounts and increasing the distributors' bargaining power in negotiating new affiliation agreements. Once distribution is obtained, the programming services of our programming businesses compete for viewers and advertisers with other cable and off-air broadcast television programming services as well as with other entertainment media, including home video, pay-per-view services, online activities, movies and other forms of news, information and entertainment. Our programming businesses also compete for creative talent and programming content. In addition, Starz Entertainment relies on third parties for substantially all of its programming content whereas Starz Entertainment's competitors produce some of their own programming content. We believe that the principal competitive factors for our programming businesses are prices charged for programming, the quantity, quality, exclusivity and variety of the programming offered and the effectiveness of marketing efforts.

Our businesses that offer services through the Internet compete with businesses that offer their own services directly through the Internet as well as with online and offline providers of similar services including providers of ticketing services, lending services, travel agencies, operators of destination search sites and search-centric portals, search technology providers, online advertising networks, site aggregation companies, media, telecommunications and cable companies, Internet service providers and niche competitors that focus on a specific category or geography. Expedia also competes with hoteliers and airlines as well as travel planning service providers, including aggregator sites that offer inventory from multiple suppliers, such as airline sites, Orbitz, Travelocity and Priceline, and with American Express and Navigant International, providers of corporate travel services. We believe that the principal competitive factors in the markets in which our businesses that offer services through the Internet engage are selection, price, availability of inventory, convenience, brand recognition, accessibility, customer service, reliability, website performance, and ease of use.

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

Employees

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

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(d)

Financial Information About Geographic Areas

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

(e)

Available Information

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

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

Item 1A. Risk Factors

The risks described below and elsewhere in this annual report are not the only ones that relate to our businesses. The risks described below are considered to be the most material. However, there may be other unknown or unpredictable economic, business, competitive, regulatory or other factors that also could have material adverse effects on our businesses. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. If any of the events described below were to occur, our businesses, prospects, financial condition, results of operations and/or cash flows could be materially adversely affected.

Factors Relating to our Company

The risks described below apply to our company.

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

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

A substantial portion of our consolidated debt is held above the operating subsidiary level, and we could be unable in the future to obtain cash in amounts sufficient to service that debt and our other financial obligations. As of December 31, 2008, we had $5.7 billion principal amount of publicly-traded debt outstanding. In addition, we have $1,375 million of bank debt that is held above the operating subsidiary level. Our ability to meet our financial obligations will depend on our ability to access cash. Our sources of cash include our available cash balances, net cash from operating activities, dividends

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and interest from our investments, availability under credit facilities at the operating subsidiary level, monetization of our public investment portfolio and proceeds from asset sales. There are no assurances that we will maintain the amounts of cash, cash equivalents or marketable securities that we maintained over the past few years. The ability of our operating subsidiaries to pay dividends or to make other payments or advances to us depends on their individual operating results and any statutory, regulatory or contractual restrictions to which they may be or may become subject. Some of our subsidiaries are subject to loan agreements that restrict sales of assets and prohibit or limit the payment of dividends or the making of distributions, loans or advances to stockholders and partners. We do not generally receive cash, in the form of dividends, loans, advances or otherwise, from our business affiliates. In this regard, we will not have sufficient voting control over most of our business affiliates to cause those companies to pay dividends or make other payments or advances to their partners or stockholders, including our company.

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

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

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

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

Our subsidiaries and business affiliates are subject to risks of adverse government regulation. Programming services, cable television systems, the Internet, telephony services, direct-to-home satellite services and satellite carriers are subject to varying degrees of regulation in the United States by the Federal Communications Commission and other entities and in foreign countries by similar regulators. Such regulation and legislation are subject to the political process and have been in constant flux over the past decade. The application of various sales and use tax provisions under state, local and foreign law to certain of our subsidiaries' and business affiliates' products and services sold via the Internet, television and telephone is subject to interpretation by the applicable taxing authorities, and no assurance can be given that such authorities will not take a contrary position to that taken by those subsidiaries and business affiliates, which could have a material adverse effect on their business. In

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addition, there have been numerous attempts at the federal, state and local levels to impose additional taxes on online commerce transactions. Moreover, substantially every foreign country in which our subsidiaries or business affiliates have, or may in the future make, an investment regulates, in varying degrees, the distribution, content and ownership of programming services and foreign investment in programming companies and wireline and wireless cable communications, satellite and telephony services and the Internet. Further material changes in the law and regulatory requirements must be anticipated, and there can be no assurance that our businesses and assets will not be adversely affected by future legislation, new regulation or deregulation.

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

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

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

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

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

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

Factors Relating to QVC

The risks described below are unique to QVC.

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

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

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

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

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QVC's success depends in large part on its ability to recruit and retain key employees capable of executing its unique business model. QVC has a business model that requires it to recruit and retain key employees with the skills necessary for a unique business that demands knowledge of the general retail industry, television production, direct to consumer marketing and fulfillment and the Internet. We can not assure you that if QVC experiences turnover of its key employees, it will be able to recruit and retain acceptable replacements because the market for such employees is very competitive and limited.

QVC has operations outside of the United States that are subject to numerous operational and financial risks. QVC has operations in countries other than the United States and are subject to the following risks inherent in international operations:

- fluctuations in currency exchange rates;
- longer payment cycles for sales in foreign countries that may increase the uncertainty associated with recoverable accounts;
- recessionary conditions and economic instability affecting overseas markets;
- potentially adverse tax consequences;
- export and import restrictions, tariffs and other trade barriers;
- increases in taxes and governmental royalties and fees;
- involuntary renegotiation of contracts with foreign governments;
- changes in foreign and domestic laws and policies that govern operations of foreign-based companies;
- difficulties in staffing and managing international operations; and
- political unrest that may result in disruptions of services that are critical to their international businesses.

Factors Relating to DIRECTV

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

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

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

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

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

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

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

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

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

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

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

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

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

DIRECTV depends on others to produce programming and programming costs are increasing. DIRECTV depends on third parties to provide it with programming services, including third parties who are DIRECTV's affiliates and third parties controlled by competitors. DIRECTV's ability to compete successfully will depend on its ability to continue to obtain desirable programming and deliver it to its subscribers at competitive prices. DIRECTV's programming agreements generally have remaining terms ranging from less than one to up to ten years and contain various renewal and cancellation provisions. DIRECTV may not be able to renew these agreements on favorable terms, or at all, or these agreements may be cancelled prior to expiration of their original terms. If DIRECTV is unable to renew any of these agreements or the other parties cancel the agreements, DIRECTV may not be able to obtain substitute programming, or if it is able to obtain such substitute programming, it may not be comparable in quality or cost to DIRECTV's existing programming.

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

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

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

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

Results are impacted by the effect of, and changes in, United States and Latin America economic conditions and weakening economic conditions may reduce subscriber spending and DIRECTV's rate of growth of subscriber additions and may increase subscriber churn. DIRECTV's business may be affected

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other regulatory risks include, among others:

- the relocation of satellites to different orbital locations if the FCC determines that relocation is in the public interest;
- the denial by the FCC of an application to replace an existing satellite with a new satellite or to operate a satellite beyond the term of its current authorization;
- the loss of authorizations to operate satellites on certain frequencies at certain locations if DIRECTV does not construct, launch and operate satellites into those locations by certain dates; and
- the authorization by the United States or foreign governments of the use of frequencies by third party satellite or terrestrial facilities that have the potential to interfere with communication to or from DIRECTV's satellites, which could interfere with DIRECTV's contractual obligations or services to subscribers or other business operations.

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties.

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

QVC owns its corporate headquarters and operations center in West Chester, Pennsylvania. It also owns call centers in San Antonio, Texas, Port St. Lucie, Florida, Chesapeake, Virginia, Bochum and Kassel, Germany, as well as a call center and warehouse in Knowsley, United Kingdom. QVC owns a distribution center in Hücklehoven, Germany and distribution centers in Lancaster, Pennsylvania, Suffolk, Virginia, Rocky Mount, North Carolina, Florence, South Carolina and Sakura-shi, Chiba, Japan. To supplement the facilities it owns, QVC also leases various facilities in the United States, the United Kingdom, Germany and Japan for retail outlet stores, office space, warehouse space and call center locations.

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

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

Our other subsidiaries and business affiliates own or lease the fixed assets necessary for the operation of their respective businesses, including office space, transponder space, headends, cable television and telecommunications distribution equipment, telecommunications switches and customer equipment (including converter boxes). Our management believes that our current facilities are suitable and adequate for our business operations for the foreseeable future.

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Item 3. Legal Proceedings.

None.

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

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

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PART II.

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

Market Information

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

Holders

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

Dividends

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

Item 6. Selected Financial Data.

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

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

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

Overview

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

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

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

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

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

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

2008 Transactions

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

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

2007 Transactions

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

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

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

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

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

2006 Transactions

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

Discontinued Operations

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

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

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

Strategies and Challenges of Business Units

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

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

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

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

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

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

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

Results of Operations

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

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Consolidated Operating Results

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Income and Expense

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating Results by Business

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

QVC's operating results are as follows:

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

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Net revenue is generated in the following geographical areas:

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

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

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

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

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

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

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presentations which began in March 2007 and caused QVC-Japan to remove a number of products from its programming.

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

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

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

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

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

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

Starz Entertainment's operating results are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. We use equity collars and other financial instruments to manage market risk associated with certain investment positions. These instruments are recorded at fair value based on option pricing models.

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

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

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

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

- execute our derivative instruments with several different counterparties, and

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

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

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

Our counterparty credit risk by financial institution is summarized below:

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

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

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

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

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

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

Item 9B. Other Information.

None.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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Report of Independent Registered Public Accounting Firm

The Member
Liberty Media LLC:

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

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

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

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

KPMG LLP

Denver, Colorado
March 24, 2009

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LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

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

(continued)

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LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2008 and 2007

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

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2008, 2007 and 2006

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

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

Years ended December 31, 2008, 2007 and 2006

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

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2008, 2007 and 2006

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

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

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY

Years ended December 31, 2008, 2007 and 2006

	Member's equity	Note receivable from parent	Accumulated other comprehensive earnings	Accumulated deficit	Common stock Series A	Common stock Series B	Additional paid-in capital	Total member's equity
				amounts in millions				
Balance at January 1, 2006	$		3,421	(13,278)	27	1	28,949	19,120
Net earnings				856				856
Other comprehensive earnings			2,531					2,531
Restructuring (note 1)	28,975				(27)	(1)	(28,947)	
Stock compensation	62							62
Contribution from parent for acquisition	36							36
Cash transfers to parent, net		(953)						(953)
Intercompany interest allocation		(26)						(26)
Other	(1)						(2)	(3)
Balance at December 31, 2006	29,072	(979)	5,952	(12,422)				21,623
Net earnings				2,212				2,212
Other comprehensive loss								