

LIBERTY MEDIA LLC
Form 10-Q
August 13, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549**

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

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

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

LIBERTY MEDIA LLC
(Exact name of Registrant as specified in its charter)

State of Delaware
(State or other jurisdiction of
incorporation or organization)

20-5272297
(I.R.S. Employer
Identification No.)

12300 Liberty Boulevard
Englewood, Colorado
(Address of principal executive offices)

80112
(Zip Code)

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

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, a non-accelerated filer, or a smaller reporting company. See the 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
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Indicate by check mark whether the Registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes o No ý

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

LIBERTY MEDIA LLC AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(unaudited)

	June 30, 2008	December 31, 2007
	amounts in millions	
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 3,876	3,135
Trade and other receivables, net	1,404	1,517
Inventory, net	1,015	975
Program rights	521	515
Financial instruments (note 10)	35	23
Other current assets	202	144
Total current assets	7,053	6,309
Investments in available-for-sale securities and other cost investments, including \$682 million and \$1,183 million pledged as collateral for share borrowing arrangements (note 6)	5,449	17,569
Long-term financial instruments (note 10)	1,739	1,590
Investments in affiliates accounted for using the equity method (note 7)	14,769	1,817
Investment in special purpose entity (note 8)		750
Property and equipment, at cost	2,023	1,894
Accumulated depreciation	(647)	(543)
	1,376	1,351
Intangible assets not subject to amortization:		
Goodwill (note 9)	8,166	7,855
Trademarks	2,514	2,515
Other	173	173
	10,853	10,543
Intangible assets subject to amortization, net	3,773	3,863
Other assets, net (note 8)	1,627	1,857
Total assets	\$46,639	45,649

(continued)

LIBERTY MEDIA LLC AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Continued)

(unaudited)

	June 30, 2008	December 31, 2007
	amounts in millions	
<i>Liabilities and Member's Equity</i>		
Current liabilities:		
Accounts payable	\$ 479	605
Accrued interest	165	148
Other accrued liabilities	865	936
Financial instruments (note 10)	712	1,206
Current portion of debt (note 11)	636	191
Accrued stock compensation	211	207
Current deferred income tax liabilities	253	93
Other current liabilities	221	153
Total current liabilities	3,542	3,539
Long-term debt, including \$2,813 million and \$3,690 million measured at fair value (note 11)	13,343	11,524
Long-term financial instruments (note 10)	224	176
Deferred income tax liabilities	5,893	8,463
Other liabilities	1,621	1,565
Total liabilities	24,623	25,267
Minority interests in equity of subsidiaries (note 8)	122	866
Member's equity:		
Member's equity	29,095	29,084
Note receivable from parent (note 13)	(3,989)	(3,624)
Accumulated other comprehensive earnings, net of taxes	113	4,073
Accumulated deficit	(3,325)	(10,017)
Total member's equity	21,894	19,516
Commitments and contingencies (note 14)		
Total liabilities and member's equity	\$46,639	45,649

See accompanying notes to condensed consolidated financial statements.

LIBERTY MEDIA LLC AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	amounts in millions			
Revenue:				
Net retail sales	\$ 1,954	1,791	3,904	3,562
Communications and programming services	533	402	934	754
	2,487	2,193	4,838	4,316
Operating costs and expenses:				
Cost of sales	1,228	1,112	2,466	2,222
Operating	558	457	999	861
Selling, general and administrative, including stock-based compensation (note 3)	295	224	560	433
Depreciation and amortization	176	172	353	323
	2,257	1,965	4,378	3,839
Operating income	230	228	460	477
Other income (expense):				
Interest expense	(187)	(145)	(353)	(295)
Interest income parent (note 13)	52	33	112	49
Dividend and interest income third party	41	64	100	139
Share of earnings of affiliates, net	165	16	210	25
Realized and unrealized gains (losses) on financial instruments, net (note 10)	(37)	(251)	(322)	93
Gains (losses) on dispositions of assets, net	(1)	629	3,681	635
Other, net		5	(2)	5
	33	351	3,426	651
Earnings from continuing operations before income taxes and minority interests	263	579	3,886	1,128
Income tax benefit (expense) (note 12)	(97)	360	1,787	152
Minority interests in earnings of subsidiaries	(9)	(15)	(21)	(19)
Earnings from continuing operations	157	924	5,652	1,261
Earnings from discontinued operations, net of taxes		107		149
Net earnings	\$ 157	1,031	5,652	1,410

See accompanying notes to condensed consolidated financial statements.

LIBERTY MEDIA LLC AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Earnings

(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	amounts in millions			
Net earnings	\$ 157	1,031	5,652	1,410
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	(6)	11	76	22
Unrealized holding losses arising during the period	(77)	(322)	(722)	(47)
Recognition of previously unrealized gains on available-for-sale securities, net		(392)	(2,273)	(396)
Change in fair value of cash flow hedges	47		(1)	
Other comprehensive loss	(36)	(703)	(2,920)	(421)
Comprehensive earnings	\$ 121	328	2,732	989

See accompanying notes to condensed consolidated financial statements.

LIBERTY MEDIA LLC AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Six months ended June 30,	
	2008	2007
	amounts in millions	
	(note 4)	
Cash flows from operating activities:		
Net earnings	\$ 5,652	1,410
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Earnings from discontinued operations		(149)
Depreciation and amortization	353	323
Stock-based compensation	43	40
Cash payments for stock-based compensation	(19)	(35)
Noncash interest income, net	(94)	(43)
Share of earnings of affiliates, net	(210)	(25)
Realized and unrealized losses (gains) on financial instruments, net	322	(93)
Gains on disposition of assets, net	(3,681)	(635)
Minority interests in earnings of subsidiaries	21	19
Deferred income tax benefit	(2,097)	(228)
Other noncash charges, net	20	13
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions:		
Current assets	(26)	2
Payables and other current liabilities	(83)	(81)
Net cash provided by operating activities	201	518
Cash flows from investing activities:		
Cash proceeds from dispositions	24	520
Net proceeds (payments) from settlement of financial instruments	12	(65)
Cash paid for acquisitions, net of cash acquired	(46)	(126)
Cash received in exchange transactions	465	1,154
Capital expended for property and equipment	(92)	(179)
Net sales (purchases) of short term investments	67	(191)
Investments in and loans to cost and equity investees	(2,517)	(810)
Net decrease (increase) in restricted cash	340	(734)
Net cash transfers to parent	(253)	(1,808)
Other investing activities, net	(24)	19
Net cash used by investing activities	(2,024)	(2,220)
Cash flows from financing activities:		
Borrowings of debt	3,784	1,384
Repayments of debt	(1,165)	(336)
Contribution from minority owner		750
Other financing activities, net	(68)	(11)
Net cash provided by financing activities	2,551	1,787
Effect of foreign currency exchange rates on cash	13	1

Net cash provided by discontinued operations:

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Cash provided by operating activities		8
Cash used by investing activities		(9)
Change in available cash held by discontinued operations		2
Net cash provided by discontinued operations		1
Net increase in cash and cash equivalents	741	87
Cash and cash equivalents at beginning of period	3,135	3,107
Cash and cash equivalents at end of period	\$ 3,876	3,194

See accompanying notes to condensed consolidated financial statements.

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LIBERTY MEDIA LLC AND SUBSIDIARIES

Condensed Consolidated Statement of Member's Equity

(unaudited)

Six months ended June 30, 2008

	Member's equity	Note receivable from parent	Accumulated other comprehensive earnings	Accumulated deficit	Total member's equity
amounts in millions					
Balance at January 1, 2008	\$29,084	(3,624)	4,073	(10,017)	19,516
Net earnings				5,652	5,652
Other comprehensive loss			(2,920)		(2,920)
Cumulative effect of accounting change (note 6)			(1,040)	1,040	
Cash transfers to parent, net		(253)			(253)
Intercompany interest income		(112)			(112)
Stock compensation	18				18
Other	(7)				(7)
Balance at June 30, 2008	\$29,095	(3,989)	113	(3,325)	21,894

See accompanying notes to condensed consolidated financial statements.

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30 , 2008
(unaudited)

(1) Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Liberty Media LLC and its controlled subsidiaries (collectively, "Liberty" or the "Company," unless the context otherwise requires). All significant intercompany accounts and transactions have been eliminated in consolidation. Liberty is a wholly-owned subsidiary of Liberty Media Corporation ("LMC").

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

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for such periods have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in Liberty's Annual Report on Form 10-K for the year ended December 31, 2007.

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

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

Certain prior period amounts have been reclassified for comparability with the 2008 presentation.

(2) Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 141 (revised 2007), "*Business Combinations*" ("Statement 141R"). Statement 141R replaces Statement of Financial Accounting Standards No. 141, "*Business Combinations*" ("Statement 141"), although it retains the fundamental requirement in Statement 141 that the acquisition method of accounting be used for all business combinations. Statement 141R

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree, (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase and (c) determines what information to disclose regarding the business combination. Statement 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year after December 15, 2008.

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

(3) Stock-Based Compensation

Certain of the Company's employees and employees of its subsidiaries hold options, stock appreciation rights ("SARs") and options with tandem SARs (collectively, "Awards") to purchase shares of Series A and Series B Liberty Capital, Liberty Interactive and Liberty Entertainment common stock. The Awards generally vest over a 4-5 year period and expire 7-10 years from the date of grant. Upon exercise of Awards that are settled in common stock, LMC issues new shares from its authorized, but unissued shares.

LMC has calculated the grant-date fair value for all of its equity classified awards and any subsequent remeasurement of its liability classified awards using the Black-Scholes Model. LMC estimates the expected term of the Awards based on historical exercise and forfeiture data. The volatility used in the calculation for Awards granted in 2008 is 25.3% for Liberty Interactive Awards and 19.7% for Liberty Capital and Liberty Entertainment Awards. The volatility used in the calculation for Awards granted in 2007 is 20.8% for Liberty Interactive Awards and 17.5% for Liberty Capital Awards and is based on the historical volatility of LMC's stocks and the implied volatility of publicly traded Liberty options. LMC uses the risk-free rate for Treasury Bonds with a term similar to that of the subject options.

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

Three months ended:	
June 30, 2008	\$27
June 30, 2007	\$18
Six months ended:	
June 30, 2008	\$43
June 30, 2007	\$40

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

As of June 30, 2008, the total compensation cost related to unvested LMC equity awards was approximately \$69 million. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 2 years.

LMC Awards

During the six months ended June 30, 2008, LMC granted 3,510, 13,300 and 1,191,792 options to purchase shares of Series A Liberty Capital, Series A Liberty Entertainment and Series A Liberty Interactive common stock, respectively, to employees of certain subsidiaries. Liberty used the Black-Scholes Model to estimate the grant date fair value of such options. Such options granted in 2008 had a weighted average grant-date fair value of \$4.17, \$6.41 and \$3.95 per option, respectively.

On March 3, 2008, LMC effected a recapitalization whereby its Old Liberty Capital common stock was reclassified into Liberty Entertainment common stock (on a 4-for-1 basis) and Liberty Capital common stock (on a 1-for-1 basis) (the "Reclassification").

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

	Series A Liberty Capital common stock	WAEP	Series B Liberty Capital common stock	WAEP	Old Series A Liberty Capital common stock	WAEP	Old Series B Liberty Capital common stock	WAEP
numbers of options in thousands								
Outstanding at January 1, 2008					2,787	\$97.21	1,498	\$101.37
Granted	4	\$16.37						
Exercised	(11)	\$12.22	(90)	\$12.69	(6)	\$62.91		
Forfeited	(6)	\$14.50			(1)	\$92.47		
Converted in connection with the Reclassification	2,780	\$14.20	1,498	\$15.05	(2,780)		(1,498)	
Outstanding at June 30, 2008	2,767	\$14.21	1,408	\$15.20				
Exercisable at June 30, 2008	1,887	\$13.98	1,408	\$15.20				

	Series A Liberty Interactive common stock	WAEP	Series B Liberty Interactive common stock	WAEP
numbers of options in thousands				
Outstanding at January 1, 2008	24,811	\$19.97	7,491	\$23.41
Granted	1,192	\$15.05		
Exercised	(7)	\$13.17		
Forfeited	(925)	\$18.04		
Outstanding at June 30, 2008	25,071	\$19.78	7,491	\$23.41
Exercisable at June 30, 2008	13,005	\$20.75	7,491	\$23.41

LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

	Series A Liberty Entertainment common stock	WAEP	Series B Liberty Entertainment common stock	WAEP
numbers of options in thousands				
Outstanding at January 1, 2008				
Issued in connection with the Reclassification	11,120	\$ 20.74	5,993	\$ 21.57
Granted	13	\$ 25.13		
Exercised	(14)	\$ 17.40		
Forfeited	(25)	\$ 23.79		
Outstanding at June 30, 2008	11,094	\$ 20.75	5,993	\$ 21.57
Exercisable at June 30, 2008	7,566	\$ 20.42	5,993	\$ 21.57

The following table provides additional information about outstanding options to purchase LMC common stock at June 30, 2008.

	No. of outstanding options (000's)	WAEP of outstanding options	Weighted average remaining life	Aggregate intrinsic value (000's)	No. of exercisable options (000's)	WAEP of exercisable options	Aggregate intrinsic value (000's)
Series A Capital	2,767	\$ 14.21	4.4 years	\$ 3,247	1,887	\$ 13.98	\$ 2,227
Series B Capital	1,408	\$ 15.20	2.7 years	\$	1,408	\$ 15.20	\$
Series A Interactive	25,071	\$ 19.78	4.8 years	\$ 93	13,005	\$ 20.75	\$ 65
Series B Interactive	7,491	\$ 23.41	2.9 years	\$	7,491	\$ 23.41	\$
Series A Entertainment	11,094	\$ 20.75	4.3 years	\$ 44,250	7,566	\$ 20.42	\$ 33,276
Series B Entertainment	5,993	\$ 21.57	2.9 years	\$ 16,279	5,993	\$ 21.57	\$ 16,279

(4) Supplemental Disclosures to Statements of Cash Flows

	Six months ended June 30, 2008 2007	
amounts in millions		
Cash paid for acquisitions:		
Fair value of assets acquired	\$ 46	168
Net liabilities assumed	(4)	(34)
Deferred tax liabilities	4	
Minority interest		(1)
Common stock issued		(7)
Cash paid for acquisitions, net of cash acquired	\$ 46	126
Available-for-sale securities exchanged for consolidated subsidiaries, equity investment and cash	\$ 10,144	1,718

(5) Assets and Liabilities Measured at Fair Value

Effective January 1, 2008, Liberty adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("Statement 157"). Statement 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. In

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LIBERTY MEDIA LLC AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

February 2008, the FASB issued Staff Position No. 157-2, "*Effective Date of FASB Statement No. 157*"