LIBERTY MEDIA CORP /DE/
Form S-4
February 06, 2006

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As filed with the Securities and Exchange Commission on February 6, 2006

REGISTRATION NO. 333-[ ]

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

LIBERTY MEDIA CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**4841**	**84-1288730**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification code number)	(I.R.S. Employer Identification No.)

12300 Liberty Boulevard, Englewood, Colorado 80112, (720) 875-5400

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Charles Y. Tanabe
Liberty Media Corporation
12300 Liberty Boulevard
Englewood, Colorado 80112
(720) 875-5400
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:
Robert W. Murray Jr.
Baker Botts L.L.P.
30 Rockefeller Plaza
New York, New York 10112-4998
(212) 408-2500

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective and all other conditions to the proposed reclassification described herein have been satisfied or waived, as applicable.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering	Proposed Maximum Aggregate	Amount of Registration Fee(3)

		Price Per Unit	Offering Price(2)	
Series A Liberty Interactive common stock, par value $.01 per share	670,380,089	N/A		
Series B Liberty Interactive common stock, par value $.01 per share	30,265,706	N/A		
Series A Liberty Capital common stock, par value $.01 per share	1,340,760,178	N/A		
Series B Liberty Capital common stock, par value $.01 per share	60,531,412	N/A	$22,003,909,855.60	$2,354,418.35

(1) The number of shares of Series A Liberty Interactive common stock, par value $.01 per share, of the Registrant being registered is equal to the product of (x) 2,681,520,356 shares of Liberty Media Corporation Series A common stock, par value $.01 per share ("Series A Common Stock"), expected to be exchanged in the reclassification (based upon outstanding share information as of December 13, 2005), multiplied by (y) the exchange ratio of .25. The number of shares of Series B Liberty Interactive common stock, par value $.01 per share, of the Registrant being registered is equal to the product of (x) 121,062,825 shares of Liberty Media Corporation Series B common stock, par value $.01 per share ("Series B Common Stock"), expected to be exchanged in the reclassification (based upon outstanding share information as of December 13, 2005), multiplied by (y) the exchange ratio of .25. The number of shares of Series A Liberty Capital common stock, par value $.01 per share, of the Registrant being registered is equal to the product of (x) 2,681,520,356 shares of Series A Common Stock, expected to be exchanged in the reclassification (based upon outstanding share information as of December 13, 2005), multiplied by (y) the exchange ratio of .05. The number of shares of Series B Liberty Capital common stock, par value $.01 per share, of the Registrant being registered is equal to the product of (x) 121,062,825 shares of Series B Common Stock, expected to be exchanged in the reclassification (based upon outstanding share information as of December 13, 2005), multiplied by (y) the exchange ratio of .05.

(2) Pursuant to Rule 457(c) and 457(f)(1), the proposed maximum aggregate offering price is estimated based upon the averages of the high and low prices reported for the Series A Common Stock and the Series B Common Stock, respectively, on the New York Stock Exchange on December 13, 2005, which were $7.85 and $7.88, respectively. The proposed maximum aggregate offering price is obtained by: (1) multiplying (x) the number of shares of Series A Common Stock expected to be exchanged in the merger by (y) $7.85, and (2) adding thereto the product of (x) the number of shares of Series B Common Stock expected to be exchanged in the merger multiplied by (y) $7.88.

(3) Calculated on the basis of $107.00 per million of the proposed maximum aggregate offering price. Fee in the amount of $2,354,418.35 was previously paid on December 16, 2005, with the Registrant's preliminary proxy statement/prospectus on Schedule 14A (Commission File No. 001-16615).

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this proxy statement/prospectus is not complete and may be changed. We may not sell the securities offered by this proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where an offer or solicitation is not permitted.

Subject to completion dated February 6, 2006

LIBERTY MEDIA CORPORATION

12300 Liberty Boulevard
Englewood, Colorado 80112
(720) 875-5400

[ ], 2006

Dear Stockholder:

A special meeting of stockholders of Liberty Media Corporation will be held at 9:00 a.m., local time, on [ ], 2006 at [ ]. At the special meeting you will be asked to consider and vote on a proposal which will allow us to amend our certificate of incorporation to reclassify our outstanding common stock into two new tracking stocks: Liberty Interactive common stock and Liberty Capital common stock. We refer to the amendment to our charter as the charter amendment and the proposal to adopt the charter amendment as the reclassification proposal. Each tracking stock is intended to track and reflect the separate economic performance of one of two newly designated groups, the Interactive Group in the case of the Liberty Interactive common stock and the Capital Group in the case of the Liberty Capital common stock. All of our businesses, assets and liabilities will be attributed to one of these two groups. The Interactive Group will initially have attributed to it our subsidiary QVC, Inc., our interest in IAC/InterActiveCorp and approximately $4.01 billion principal amount of existing parent company debt (as of September 30, 2005). The Capital Group will have attributed to it all of our businesses, assets and liabilities that are not part of the Interactive Group and the principal amount of our remaining parent company debt, totaling approximately $5.39 billion (as of September 30, 2005). **An investment in Liberty Interactive common stock, however, will not represent an ownership interest in the Interactive Group, and an investment in Liberty Capital common stock will not represent an ownership interest in the Capital Group. Rather, an investment in either of these tracking stocks will represent an ownership interest in our consolidated company.**

Pursuant to the reclassification contemplated by the charter amendment:

- each holder of our Series A common stock will receive 0.25 of a share of Liberty Interactive Series A common stock and 0.05 of a share of Liberty Capital Series A common stock, for each share of our outstanding Series A common stock held; and

- each holder of our Series B common stock will receive 0.25 of a share of Liberty Interactive Series B common stock and 0.05 of a share of Liberty Capital Series B common stock, for each share of our outstanding Series B common stock held.

Also, holders of our outstanding Series A common stock and holders of our outstanding Series B common stock will receive cash in lieu of any fractional shares of Liberty Interactive common stock or Liberty Capital common stock. As a result of the foregoing exchange ratios:

- a holder must own 4 shares of one series of our outstanding common stock to receive one share of the same series of Liberty Interactive common stock in the reclassification, and

- a holder must own 20 shares of one series of our outstanding common stock to receive one share of the same series of Liberty Capital common stock in the reclassification.

Our restated certificate of incorporation will also authorize the creation of Liberty Interactive Series C common stock and Liberty Capital Series C common stock, none of which will be issued at the time the reclassification is completed.

We have applied to list Liberty Interactive Series A common stock and Liberty Interactive Group Series B common stock on the Nasdaq National Market under the symbols "LINTA" and "LINTB," respectively. We have applied to list Liberty Capital Series A common stock and Liberty Capital Series B common stock on the Nasdaq National Market under the symbols "LCAPA" and "LCAPB," respectively.

This document describes the special meeting, the reclassification proposal and related matters. Our board has approved the reclassification proposal and recommends that you vote "**FOR**" the proposal.

Your vote is important, regardless of the number of shares you own. Whether or not you plan to attend the special meeting, please vote as soon as possible to make sure that your shares are represented.

Thank you for your cooperation and continued support and interest in Liberty Media Corporation.

Very truly yours,

John C. Malone
Chairman and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the reclassification proposal or the securities being offered in the reclassification or has passed upon the adequacy or accuracy of the disclosure in this booklet. Any representation to the contrary is a criminal offense.

Investing in our securities involves risks. See Risk Factors beginning on page 13.

The accompanying proxy statement/prospectus is dated [ ], 2006 and is first being mailed on or about [ ], 2006 to our stockholders of record as of 5:00 p.m., New York City time, on [ ], 2006.

HOW YOU CAN FIND ADDITIONAL INFORMATION

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934 and, in accordance with the Exchange Act, we file periodic reports and other information with the Securities and Exchange Commission. In addition, this proxy statement/prospectus incorporates important business and financial information about us from other documents that are not included in or delivered with this proxy statement/prospectus. This information is available to you without charge upon your written or oral request. You can obtain copies of documents filed by us with the Securities and Exchange Commission, including the documents incorporated by reference in this proxy statement/prospectus, through the Securities and Exchange Commission website at *http://www.sec.gov* or by contacting us by writing or telephoning the office of Investor Relations:

Liberty Media Corporation
12300 Liberty Boulevard
Englewood, Colorado 80112
Telephone: (877) 772-1518

If you would like to request any documents from us please do so by [   ], 2006 in order to receive them before the special meeting. If you request any documents, they will be mailed to you by first class mail, or another equally prompt means, within one business day after your request is received.

See "Additional Information Where You Can Find More Information" beginning on page 90.

LIBERTY MEDIA CORPORATION

12300 Liberty Boulevard
Englewood, Colorado 80112
(720) 875-5400

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

to be Held on [ ], 2006

NOTICE IS HEREBY GIVEN of a special meeting of stockholders of Liberty Media Corporation to be held at 9:00 a.m., local time, on [ ], 2006 at [ ], to consider and vote on a proposal, which we refer to as the "**reclassification proposal**," that our certificate of incorporation be amended to provide for the creation of two new tracking stocks intended to track and reflect the separate economic performance of a new Interactive Group and a new Capital Group, which are described in detail in the accompanying proxy statement/prospectus. The terms of the two tracking stocks would, among other things:

- provide for the creation of three series within each tracking stock which have different voting rights;
- provide the board of directors with broad discretion as to, among other things:
  - the businesses, assets and liabilities to be attributed to each group;
  - the creation, form and adjustment of any inter-group interests;
  - the timing of any conversion of the Liberty Interactive common stock into shares of Liberty Capital common stock (except during the first year after the issuance of the tracking stock); and
  - the redemption of shares of either group and the consideration to be used to effect such redemption;
- provide a different per-share liquidation value for each tracking stock, based largely on the initial relative trading values of the two tracking stocks; and
- in some cases permit the sale of all or substantially all of the assets of a group without a vote of the holders of the stock of that group, if the net proceeds of such sale are distributed to holders of that stock by means of a dividend or redemption, that stock is converted into stock of the other group or a combination of the foregoing is effected.

We encourage you to read the accompanying proxy statement/prospectus in its entirety before voting. The form of the proposed amended certificate of incorporation is included as Annex C to this proxy statement/prospectus.

Holders of Liberty Media Corporation Series A common stock, par value $.01 per share, and Liberty Media Corporation Series B common stock, par value $.01 per share, outstanding as of 5:00 p.m., New York City time, on [ ], 2006, the record date for the special meeting, may

vote at the special meeting or at any adjournment or postponement thereof. Holders of record of Series A common stock and Series B common stock on the record date will vote together as a single class.

Our board of directors has carefully considered and approved the reclassification proposal and recommends that you vote "**FOR**" the reclassification proposal.

YOUR VOTE IS IMPORTANT. We urge you to vote as soon as possible by telephone, internet or mail.

By order of the board of directors,

Charles Y. Tanabe
Senior Vice President, General Counsel and Secretary

Englewood, Colorado
[ ], 2006

Please execute and return the enclosed proxy promptly, whether or not you intend to be present at the special meeting.

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QUESTIONS AND ANSWERS

The questions and answers below highlight only selected information about the special meeting and how to vote your shares. You should read carefully the entire proxy statement/prospectus, including the appendices included herein, and the additional documents incorporated by reference in this proxy statement/prospectus to fully understand the reclassification proposal. Unless the context clearly indicates otherwise, all references in this proxy statement/prospectus to "we," "us," "our," "our company" and "Liberty" refer to Liberty Media Corporation.

Q: **When and where is the special meeting?**

A: The special meeting will be held at 9:00 a.m., local time, on [ ], at [ ].

Q: **What is the record date for the special meeting?**

A: The record date for the special meeting is 5:00 p.m., New York City time, on [ ].

Q: **What is the purpose of the special meeting?**

A: To consider and vote on a proposal, which we refer to as the "**reclassification proposal**," that our certificate of incorporation be amended to provide for the creation of two new tracking stocks intended to track and reflect the separate economic performance of a new Interactive Group and a new Capital Group, which are described in detail in this proxy statement/prospectus. The terms of the two tracking stocks would, among other things:

- provide for the creation of three series within each tracking stock which have different voting rights;
- provide the board of directors with broad discretion as to, among other things:
  - the businesses, assets and liabilities to be attributed to each group;
  - the creation, form and adjustment of any inter-group interests;
  - the timing of any conversion of the Liberty Interactive common stock into shares of Liberty Capital common stock (except during the first year after the issuance of the tracking stock); and
  - the redemption of shares of either group and the consideration to be used to effect such redemption;
- provide a different per-share liquidation value for each tracking stock, based largely on the initial relative trading values of the two tracking stocks; and
- in some cases permit the sale of all or substantially all of the assets of a group without a vote of the holders of the stock of that group, if the net proceeds of such sale are distributed to holders of that stock by means of a dividend or redemption, that stock is converted into stock of the other group or a combination of the foregoing is effected.

We refer to our certificate of incorporation, as amended in the manner contemplated by the reclassification proposal, as the "**charter amendment**" and to the transactions contemplated by the reclassification proposal collectively as the "**reclassification**."

Q:

What stockholder vote is required to approve the reclassification proposal?

A:

The reclassification proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of our Series A common stock and our Series B common stock outstanding on the record date that are present at the special meeting in person or by proxy, voting together as a class.

Each share of our Series A common stock is entitled to one vote, and each share of our Series B common stock is entitled to ten votes on the reclassification proposal.

As of January 3, 2006, our directors and executive officers beneficially owned approximately 33.4% of the total voting power of our outstanding common stock.

Q:

What do stockholders need to do to vote on the reclassification proposal?

A:

After carefully reading and considering the information contained in this proxy statement/prospectus, stockholders should complete, sign and date their proxy cards and mail them in the enclosed return envelope, or vote by the telephone or through the Internet, in each case as soon as possible so that their shares are represented and voted at the special meeting. Stockholders who have shares registered in the name of a broker, bank or other nominee should follow the voting instruction card provided by their broker, bank or other nominee in instructing them how to vote their shares.

Q:

If shares are held in "street name" by a broker, bank or other nominee, will the broker, bank or other nominee vote those shares for the beneficial owner on the reclassification proposal?

A:

If you hold your shares in street name and do not provide voting instructions to your broker, bank or other nominee, your shares will not be voted on the reclassification proposal. Accordingly, your broker, bank or other nominee will vote your shares held in "street name" only if you provide instructions on how to vote. You should follow the directions your broker, bank or other nominee provides to you regarding how to vote your shares.

Q:

May stockholders change their vote on the reclassification proposal after returning a proxy card or voting by telephone or over the Internet?

A:

Yes. Before their proxy is voted at the special meeting, stockholders who want to change their vote on the reclassification proposal may do so by telephone or over the Internet (if they originally voted by telephone or over the Internet), by voting in person at the special meeting or by delivering a signed proxy revocation or a new signed proxy with a later date to: [ ]

Any signed proxy revocation or new signed proxy must be received before the start of the special meeting. Your attendance at the special meeting will not, by itself, revoke your proxy. If your shares are held in an account by a broker, bank or other nominee who you previously contacted with voting instructions, you should contact your broker, bank or other nominee to change your vote.

Q:

Should stockholders send their shares of Liberty common stock with their proxy cards?

A:

No. If the reclassification proposal is approved, you will receive written instructions from the stock transfer agent after the reclassification is completed on how to exchange your shares of Liberty common stock for shares of Liberty Interactive common stock and Liberty Capital common stock and cash in lieu of any fractional share interests. You are urged NOT to send your shares of Liberty common stock with your proxy card.

Q:

When will the reclassification proposal be implemented?

A:

We currently expect that if the reclassification proposal is approved, we will file the charter amendment in Delaware as soon as practicable after the special meeting and our receipt of an opinion from Baker Botts L.L.P. with respect to certain tax matters and thereby effect the reclassification. However, the board of the directors has the right to decide not to file the charter amendment and thereby abandon the reclassification at any time, even after the reclassification proposal has been approved by our stockholders.

Q:

What do I do if I have additional questions?

A:

If you have any questions prior to the special meeting or if you would like copies of any document we refer to or that we incorporate by reference in this document, please call Investor Relations at (877) 722-1518.

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SUMMARY

The following summary includes information contained elsewhere in this proxy statement/prospectus. This summary does not contain all of the important information that you should consider before voting on the reclassification proposal. You should read the entire proxy statement/prospectus carefully.

General

At the special meeting you will be asked to vote on a proposal which will allow us to amend our certificate of incorporation and reclassify our outstanding common stock. If this proposal is approved, then, as a result of the reclassification, all of our outstanding common stock will be converted into two new tracking stocks, Liberty Interactive common stock and Liberty Capital common stock, with each tracking stock intended to track and reflect the economic performance of one of two newly designated groups, the Interactive Group and the Capital Group, respectively. The Interactive Group will initially have attributed to it our subsidiary QVC, Inc. and our interest in IAC/InterActiveCorp. In addition, we will attribute $4.01 billion principal amount (as of September 30, 2005) of our existing parent company debt to the Interactive Group. The Capital Group will have attributed to it all of our businesses, assets and liabilities that are not part of the Interactive Group and our remaining existing parent company debt totaling approximately $5.39 billion (as of September 30, 2005).

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

In the reclassification:

- each holder of our Series A common stock will receive (i) 0.25 of a share of Liberty Interactive Series A common stock and (ii) 0.05 of a share of Liberty Capital Series A common stock, for each share of our outstanding Series A common stock held; and

- each holder of our Series B common stock will receive (i) 0.25 of a share of Liberty Interactive Series B common stock and (ii) 0.05 of a share of Liberty Capital Series B common stock, for each share of our outstanding Series B common stock held;

with, in each case, cash in an amount equal to the value of any fractional share interests, determined as described under "The Reclassification Proposal The Reclassification."

The charter amendment will also authorize the creation of Liberty Interactive Series C common stock and Liberty Capital Series C common stock, none of which will be issued at the time the reclassification is completed.

Liberty Media Corporation

We are a holding company that, through ownership of interests in our subsidiaries and other companies, is primarily engaged in the electronic retailing, media, communications and entertainment industries. Through our subsidiaries, we operate in the United States, Europe and Asia. Our principal assets include our subsidiaries QVC, Inc. and Starz Entertainment Group LLC, our 50% interests in Court Television Network and GSN, and our strategic equity interests in IAC/InterActiveCorp, News Corporation and Expedia.

Our principal executive offices are located at 12300 Liberty Boulevard, Englewood, Colorado 80112. Our main telephone number is (720) 875-5400, and our company website is located at *www.libertymedia.com*.

Interactive Group

The term "Interactive Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which we attribute to it. If the reclassification is completed, our assets and businesses will be attributed to either the Interactive Group or the Capital Group. The assets and businesses we attribute to the Interactive Group will be those engaged in video and on-line commerce, and will initially include our subsidiary QVC, Inc. and our interest in IAC/InterActiveCorp, and thereafter will include such other businesses that our board of directors may in the future determine to attribute to the Interactive Group, including such other businesses as we may acquire for the Interactive Group. In addition, we will attribute $4.01 billion principal amount (as of September 30, 2005) of our existing parent company debt to the Interactive Group.

Capital Group

The term "Capital Group" also does not represent a separate legal entity, rather it represents all of our businesses, assets and liabilities other than those which will be attributed to the Interactive Group. If the reclassification is completed, the assets and businesses we attribute to the Capital Group will initially include our subsidiaries Starz Entertainment Group LLC, On Command Corporation, OpenTV Corp. and TruePosition, Inc., our equity affiliates Courtroom Television Network LLC, GSN, LLC, Expedia, Inc. and WildBlue Communications, Inc. and our interests in Motorola, Inc., News Corporation, Sprint Nextel Corporation, Time Warner, Inc., Viacom, Inc. and IDT Corporation, and thereafter will include such other businesses that our board of directors may in the future determine to attribute to the Capital Group, including such other businesses as we may acquire for the Capital Group. In addition, we will attribute $5.39 billion principal amount (as of September 30, 2005) of our existing parent company debt to the Capital Group.

Recent Developments

Acquisition of Majority Interest in FUN Technologies plc.

On November 22, 2005, we entered into a share purchase and support agreement with FUN Technologies plc, a public company which develops and provides online games, online fantasy sports platforms and sports information, pursuant to which we have agreed to acquire a majority interest in FUN for aggregate consideration of approximately GBP 83.7 million and US $50 million. Completion of the transaction, which is subject to customary closing conditions including approval by the stockholders of FUN and the High Court of Justice in England and Wales, is expected to occur in the first quarter of 2006. If this transaction is not completed, we will have the right (but not the obligation) to purchase an approximate 16% economic interest in FUN for aggregate cash and stock consideration of US $50 million and to obtain representation on FUN's board of directors. If the transaction is completed, we will attribute our interest in FUN to the Capital Group.

Acquisition of Provide Commerce, Inc.

On December 4, 2005, we entered into a merger agreement providing for our acquisition by merger of Provide Commerce, Inc., an operator of an on-line commerce marketplace of websites for flowers and other perishable goods, for aggregate consideration of approximately $477 million. The transaction, which is subject to customary closing conditions including approval by the stockholders of Provide Commerce, is expected to close in the first quarter of 2006. If the transaction is completed, we will attribute our interest in Provide to the Interactive Group.

Debt Retirements

During the fourth quarter of 2005, we retired approximately $340 million principal amount of our parent company debt, $332 million of which related to debt to be attributed to the Interactive Group.

The Reclassification Proposal

The Charter Amendment	If the reclassification proposal is approved at the special meeting and the reclassification is completed, our restated certificate of incorporation (which we refer to as our "**amended charter**") will provide for two separate tracking stocks, the Liberty Interactive common stock and the Liberty Capital common stock. The Liberty Interactive common stock is intended to reflect the separate economic performance of the businesses and interests attributed to the Interactive Group, while the Liberty Capital common stock is intended to reflect the separate economic performance of the businesses and interests attributed to the Capital Group. Each group's common stock will be further divided into three series: the Series A common stock, the Series B common stock and the Series C common stock. The Series B common stock of each group will entitle the holder to 10 votes per share, the Series A common stock of each group will entitle the holder to 1 vote per share and the Series C common stock of each group will not entitle the holder to any votes, except to the extent required under Delaware law. Other differences between the common stocks of the two groups, and among the series of each group's common stock, are described under "The Reclassification Proposal Comparison of Liberty Common Stock with Liberty Interactive Common Stock and Liberty Capital Common Stock" and " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock."
Management and Allocation Policies	We have established policies designed to accomplish the fundamental objective of the reclassification, which is to separately present the businesses and operations of the Interactive Group and the Capital Group. These policies establish guidelines to help us attribute debt, corporate overhead, interest, taxes and other shared activities to either of the two groups.
Conversion of Liberty Common Stock	If the reclassification proposal is approved and the reclassification is completed, each share of our outstanding Series A common stock will be converted into 0.25 shares of Liberty Interactive Series A common stock and 0.05 shares of Liberty Capital Series A common stock, and each share of our outstanding Series B common stock will be converted into 0.25 shares of Liberty Interactive Series B common stock and 0.05 shares of Liberty Capital Series B common stock. No shares of Liberty Interactive Series C common stock or Liberty Capital Series C common stock will be issued at the time the reclassification is effected.

No fractional shares will be issued in the reclassification. Instead, holders will be entitled to receive cash in an amount equal to the value of any fractional share interests, determined as described under "The Reclassification Proposal The Reclassification."

Reasons for the Reclassification Proposal

We expect the implementation of the reclassification proposal to:

- enable investors and analysts to focus more attention on the Interactive Group and the Capital Group, in an effort to encourage greater market recognition of the value of the businesses, assets and liabilities comprising the Interactive Group and the Capital Group and therefore Liberty as a whole;
- provide us with greater flexibility to raise capital and respond to strategic opportunities, including acquisitions, because it will allow us to issue a series and type of common stock that is appropriate under the circumstances; for example, there may be times when, because of industry-wide trends or other factors, one group's stock is valued more favorably than the other's, which would permit us to raise capital for that group on better terms than would be the case if there were no tracking stocks. We also believe that shares of a group for which an acquisition is being made is a preferable acquisition currency for sellers as they will have a greater opportunity to participate in any gains enjoyed by the acquired company after the acquisition; and
- allow investors to invest in a series and type of our common stock that meets their particular investment objectives.

Not a Spin Off

The reclassification proposal will not result in a spin off of the assets attributed to either group. All of the businesses, assets and liabilities attributed to the Interactive Group and the Capital Group will remain part of our company.

The board of directors believes that shareholder value may be enhanced by creating separate series of stock intended to track and reflect the economic performance of the businesses, assets and liabilities attributed to each of the Interactive Group and the Capital Group. The Interactive Group and the Capital Group, however, each currently benefit from the synergies of being part of the same company, such as an enhanced "consolidated" credit rating, possible tax benefits and shared treasury, finance and other functions. In the event the businesses of the Interactive Group and the Capital Group were separated into separate companies, through a spin off or similar transaction, these synergies and benefits would no longer be available. Under the reclassification proposal, the

Interactive Group and the Capital Group will remain part of the same company and continue to benefit from the financial and other available synergies, while the creation of the two tracking stocks is expected to permit the public markets to focus on the separate performance of each group. It is possible, however, that the benefits of both groups being in the same company will not exceed the potential value that could be realized if the groups were separate companies.

Although we are not spinning off assets in the reclassification, the charter amendment will enable the board of directors, without seeking stockholder approval, but subject to certain other restrictions, to subsequently:

- spin off assets attributed to the Interactive Group by redeeming shares of Liberty Interactive common stock for stock of a subsidiary holding those assets; and/or
- spin off assets attributed to the Capital Group by redeeming shares of Liberty Capital common stock for stock of a subsidiary holding those assets.

Comparison of Liberty Common Stock with Liberty Interactive Common Stock and Liberty Capital Common Stock

If the reclassification proposal is approved and the reclassification is completed, holders of Liberty Interactive common stock and Liberty Capital common stock will have rights that differ significantly from those of holders of our existing Series A common stock and Series B common stock. Please see "The Reclassification Proposal Comparison of Liberty Common Stock with Liberty Interactive Common Stock and Liberty Capital Common Stock" for a summary of these differences.

Effect on Management

No changes in management are currently planned as a result of the transactions contemplated by the reclassification proposal.

Effect on Future Financial Statements

For purposes of preparing the financial information of the Interactive Group and the Capital Group included in this proxy statement/prospectus, we have attributed all of our consolidated assets, liabilities, revenue, expenses and cash flows to either the Interactive Group or the Capital Group. Following the reclassification, we will present consolidated financial statements and consolidating financial statement information that will show the attribution of our assets, liabilities, revenue, expenses and cash flow to either the Interactive Group or the Capital Group. In addition, we will present earnings per share for each of the Liberty Interactive common stock and the Liberty Capital common stock. We will, however, retain all beneficial ownership and control of the assets and operations of both the Interactive Group and the

	Capital Group and you will be subject to the risks associated with an investment in Liberty as a whole.
U.S. Federal Income Tax Considerations	It is a nonwaivable condition to the completion of the reclassification that we receive the opinion of Baker Botts L.L.P. to the effect that: the reclassification will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code; the Liberty Interactive common stock and the Liberty Capital common stock issued in the reclassification will be treated as stock of Liberty for U.S. federal income tax purposes; except with respect to cash received instead of fractional shares, holders of our common stock will not recognize income, gain or loss as a result of the conversion of their shares of our outstanding common stock into shares of Liberty Interactive common stock and Liberty Capital common stock in the reclassification; and the Liberty Interactive common stock and the Liberty Capital common stock issued in the reclassification will not constitute Section 306 stock within the meaning of Section 306(c) of the Internal Revenue Code. However, there are no court decisions or other authorities bearing directly on transactions similar to the reclassification, and the IRS has announced that it will not issue rulings on the characterization of stock with terms similar to the Liberty Interactive common stock and the Liberty Capital common stock. Because an opinion of counsel is not equivalent to a ruling from the IRS, and there can be no assurance that the IRS would not challenge the conclusions expressed in such opinion, there exists some uncertainty about the tax treatment of the reclassification. The tax consequences of the reclassification to you will depend on the facts of your own situation. We urge you to consult your tax advisors for a full description of the tax consequences of the reclassification to you.
No Appraisal Rights	Under Delaware General Corporation Law, you will not have appraisal rights in connection with the reclassification.
No Regulatory Approvals	No state or federal regulatory approvals are required for the reclassification.
Recommendation of our Board of Directors	Our board of directors has approved the reclassification proposal and recommends that you vote "FOR" the reclassification proposal.

Risk Factors	***Please see "Risk Factors" starting on page 13 for a discussion of risks that should be considered in connection with the reclassification proposal and an investment in our proposed tracking stocks.***

No Material Refinancing, Equity Repurchase or Restructuring Presently Contemplated

We have no plans at the present time to effect any material refinancing of our outstanding parent company debt or to effect any material repurchase of outstanding shares of Liberty Capital common stock or Liberty Interactive common stock after the consummation of the reclassification. Consummation of the reclassification will not trigger any changes to, or accelerate any obligations under, our outstanding debt. None of our contracts with vendors, customers or others with whom we have a material business relationship will change as a result of the reclassification.

We currently expect to increase the maximum borrowings allowed under QVC's bank credit facility from $2 billion to $3.5 billion, which would be effected regardless of whether the reclassification is completed. It is anticipated that any funds drawn under the increased facility would be used to fund QVC's capital and operating requirements and other requirements of the Interactive Group after the consummation of the reclassification, including possible acquisitions and the repayment of parent company debt attributed to the Interactive Group as that debt becomes due.

While considering the reclassification proposal, our board of directors also considered creating a new public holding company of which we would become a wholly owned subsidiary and then convert into a limited liability company. The purpose of this holding company structure would be to provide us with more flexibility in accomplishing asset segmentations and capital restructurings in the event we decided to pursue any in the future. In connection with the possible implementation of this holding company structure, we have requested a ruling from the Internal Revenue Service, which is currently under review, to the effect that such a restructuring would not cause a "modification" of our outstanding publicly traded debt for U.S. federal income tax purposes. We cannot assure you that our ruling request will be granted, nor can we assure you that, if it is granted, we will complete such a restructuring in the near future or at all.

Summary Attributed Historical Financial Information

Liberty Media Corporation

The following table sets forth our historical financial data for each of the two years in the period ended December 31, 2004 and for the nine-month periods ended September 30, 2005 and 2004, and for each period presented pro forma earnings (loss) from continuing operations attributable to the Interactive Group and the Capital Group, and the earnings (loss) per common share attributable to the Liberty Interactive common stock and the Liberty Capital common stock. Such information is derived from, and should be read in conjunction with, our audited financial statements and the notes thereto for the years ended December 31, 2004 and 2003 included in Part 1 of Annex B to this proxy statement/prospectus and our unaudited financial statements and the notes thereto for the nine months ended September 30, 2005 and 2004 included in Part 1 of Annex B to this proxy statement/prospectus.

		September 30, 2005	December 31, 2004	December 31, 2003
		amounts in millions		
Summary Balance Sheet Data:				
Current assets	$	5,101	4,576	5,854
Cost investments	$	18,442	21,847	19,566
Equity investments	$	1,926	784	745
Total assets	$	41,943	50,181	54,225
Long-term debt	$	6,455	8,566	9,417
Deferred income taxes	$	8,644	9,701	9,729
Equity	$	19,034	24,586	28,842

		Nine months ended September 2005	Nine months ended September 2004	Year ended December 31 2004	Year ended December 31 2003(1)(2)
		amounts in millions			
Summary Operations Data:					
Revenue	$	5,510	4,879	7,051	3,230
Operating income (loss)	$	570	540	725	(940)
Interest expense	$	(444)	(448)	(615)	(508)
Earnings (loss) from continuing operations	$	26	96	100	(1,229)
Earnings (loss) from continuing operations per common share	$	.01	.03	.04	(.44)
Pro forma earnings from continuing operations attributable to the Interactive Group	$	151	66	220	79
Pro forma earnings (loss) from continuing operations attributable to the Capital Group	$	(125)	30	(120)	(1,308)
Pro forma earnings (loss) from continuing operations per common share(3):					
Attributable to the Liberty Interactive common stock	$	.22		.31	
Attributable to the Liberty Capital common stock	$	(.89)		(.86)	

(1) We acquired a controlling interest in QVC in September 2003. We have consolidated QVC's results of operations and financial position since that date. Prior to that date, we accounted for QVC as an equity affiliate.

(2) Operating loss and loss from continuing operations include an impairment charge of long-lived assets charges of $1,362 million.

(3)

Pro forma earnings (loss) per common share attributable to the Interactive Group and the Capital Group for all periods presented has been calculated based on 700.6 million shares of Liberty Interactive common stock and 140.1 million shares of Liberty Capital common stock, which are the number of shares that would have been issued if the reclassification had been completed on September 30, 2005.

Interactive Group

The following table supplementally sets forth selected historical attributed financial data for the Interactive Group for each of the two years in the period ended December 31, 2004 and for the nine-month periods ended September 30, 2005 and 2004. The following information is qualified in its entirety by, and should be read in conjunction with, our financial statements and notes thereto for the years ended December 31, 2004 and 2003 included in Part 1 of Annex B to this proxy statement/prospectus and the nine-month periods ended September 30, 2005 and 2004 included in Part 1 of Annex B to this proxy statement/prospectus as well as the attributed financial information included in Parts 2 and 3 to Annex B to this proxy statement/prospectus.

		September 30, 2005	December 31, 2004	December 31, 2003
		amounts in millions		
Summary Balance Sheet Data:				
Current assets	$	2,413	2,307	2,225
Cost investments	$	1,918	3,844	4,697
Equity investments	$	2	78	77
Total assets	$	16,728	18,853	19,716
Long-term debt	$	3,255	5,444	6,170
Deferred income taxes	$	2,736	3,349	3,847
Attributed net assets	$	7,710	8,580	8,388

		Nine months ended September 2005	Nine months ended September 2004	Year ended December 31, 2004(1)	Year ended December 31, 2003
		amounts in millions			
Summary Operations Data:					
Revenue	$	4,418	3,864	5,687	1,973
Operating income	$	569	466	748	291
Interest expense	$	(239)	(242)	(325)	(251)
Earnings from continuing operations	$	151	66	220	79

Capital Group

The following table supplementally sets forth selected historical attributed financial data for the Capital Group for each of the two years in the period ended December 31, 2004 and for the nine-month periods ended September 30, 2005 and 2004. The following information is qualified in its entirety by, and should be read in conjunction with, our financial statements and notes thereto for the years ended December 31, 2004 and 2003 included in Part 1 of Annex B to this proxy statement/prospectus and the nine-month periods ended September 30, 2005 and 2004 included in Part 1 of Annex B to this proxy statement/prospectus as well as the attributed financial information included in Parts 2 and 3 to Annex B to this proxy statement/prospectus.

		September 30, 2005	December 31, 2004	December 31, 2003
		amounts in millions		
Summary Balance Sheet Data:				
Current assets	$	2,688	2,269	3,629
Cost investments	$	16,524	18,003	14,869
Equity investments	$	1,924	706	668
Total assets	$	25,215	31,328	34,509
Long-term debt	$	3,200	3,122	3,247
Deferred income taxes	$	5,908	6,352	5,882
Attributed net assets	$	11,324	16,006	20,454

		Nine months ended September 2005	Nine months ended September 2004	Year ended December 31, 2004	Year ended December 31, 2003(2)
		amounts in millions			
Summary Operations Data:					
Revenue	$	1,092	1,015	1,364	1,257
Operating income (loss)	$	1	74	(23)	(1,231)
Interest expense	$	(205)	(206)	(290)	(257)
Earnings (loss) from continuing operations	$	(125)	30	(120)	(1,308)

For more detailed financial information regarding the Interactive Group and the Capital Group, see the attributed financial information included in Parts 2 and 3 to Annex B to this proxy statement/prospectus, which includes management's discussion and analysis of financial condition and results of operations for Liberty and each group for the periods presented above.

RISK FACTORS

In addition to the other information contained in, incorporated by reference in or included as an appendix to this proxy statement/prospectus, you should carefully consider the following risk factors in deciding whether to vote to approve the reclassification proposal.

The risk factors described in this section have been separated into three groups:

- risks that relate to the reclassification proposal and the ownership of tracking stock;
- risks that relate to Liberty and the businesses to be attributed to the Interactive Group and the Capital Group; and
- those unique risks that relate to our subsidiary QVC, Inc.

The risks described below and elsewhere in this proxy statement/prospectus are not the only ones that relate to the reclassification proposal, our businesses or our proposed capitalization. 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 company or the businesses attributed to either or both of the Interactive Group and the Capital Group in the future. 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, the businesses, prospects, financial condition, results of operations and/or cash flows of our company and either or both groups could be materially adversely affected. In any such case, the price of either or both the Liberty Interactive common stock and the Liberty Capital common stock could decline, perhaps significantly.

For the purposes of these risk factors, unless the context otherwise indicates, we have assumed that the reclassification proposal is approved and our outstanding common stock is reclassified and converted into the Liberty Interactive common stock and the Liberty Capital common stock.

Factors Relating to the Reclassification Proposal and Ownership of "Tracking Stock"

If our board of directors causes a separation of either group from Liberty, its stockholders may suffer a loss in value. Our board of directors may, without stockholder approval, redeem all or a portion of the shares of Liberty Interactive common stock or Liberty Capital common stock for shares of one or more of our "qualifying" subsidiaries that own only assets and liabilities attributed to the Interactive Group or the Capital Group, as the case may be, provided that our board of directors has determined that the redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) for U.S. federal income tax purposes to the holders of the common stock being redeemed. Such a redemption would result in the subsidiary or subsidiaries becoming independent of Liberty. If our board of directors chooses to redeem shares of common stock of a group:

- the value of the subsidiary shares received in the redemption could be or become less than the value of the common stock redeemed; and/or
- the market value of any remaining shares of Liberty Interactive common stock or Liberty Capital common stock could decrease from their market value immediately before the redemption.

The value of the subsidiary shares and/or the market value of the remaining shares of Liberty Interactive common stock and/or Liberty Capital common stock may decrease in part because the subsidiary and/or our remaining businesses may no longer benefit from the advantages of doing business under common ownership.

Holders of Liberty Interactive common stock and Liberty Capital common stock will be common stockholders of Liberty and will, therefore, be subject to risks associated with an investment in Liberty as a

whole, even if a holder owns shares of only the common stock of one of Liberty's groups. Even though we have attributed, for financial reporting purposes, all of our consolidated assets, liabilities, revenue, expenses and cash flows to each of the Interactive Group and the Capital Group in order to prepare the separate financial statement schedules included in this proxy statement/prospectus for each of those groups, we will retain legal title to all of our assets and our capitalization will not limit our legal responsibility, or that of our subsidiaries, for the liabilities included in either set of financial statement schedules. Holders of Liberty Interactive common stock and Liberty Capital common stock will not have any legal rights related to specific assets attributed to either of the Interactive Group or the Capital Group and, in any liquidation, holders of Liberty Interactive common stock and holders of Liberty Capital common stock will be entitled to receive a pro rata share of our available net assets based on the number of liquidation units that are attributed to each group. See "The Reclassification Proposal Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Liquidation and Dissolution."

We could be required to use assets attributed to one group to pay liabilities attributed to another group. The assets attributed to one group are potentially subject to the liabilities attributed to the other group, even if those liabilities arise from lawsuits, contracts or indebtedness that are attributed to such other group. No provision of our amended charter prevents us from satisfying liabilities of one group with assets of the other group, and our creditors will not in any way be limited by our tracking stock capitalization from proceeding against any assets they could have proceeded against prior to the approval of the reclassification proposal.

The market price of Liberty Interactive common stock and Liberty Capital common stock may not reflect the performance of the Interactive Group and the Capital Group, respectively, as we intend. We cannot assure you that the market price of the common stock of a group will, in fact, reflect the performance of the group of businesses, assets and liabilities attributed to that group. Holders of Liberty Interactive common stock and Liberty Capital common stock will be common stockholders of Liberty as a whole and, as such, will be subject to all risks associated with an investment in Liberty and all of our businesses, assets and liabilities. As a result, the market price of each series of stock of a group may simply reflect the performance of Liberty as a whole or may more independently reflect the performance of some or all of the group of assets attributed to such group. In addition, investors may discount the value of the stock of a group because it is part of a common enterprise rather than a stand-alone entity.

The market price of the Liberty Interactive common stock and the Liberty Capital common stock may be volatile, could fluctuate substantially and could be affected by factors that do not affect traditional common stock. The market reaction to the establishment of the Liberty Interactive common stock and the Liberty Capital common stock is unpredictable. To the extent the market price of the Liberty Interactive common stock or the Liberty Capital common stock track the performance of more focused groups of businesses, assets and liabilities than those of Liberty as a whole, the market prices of these stocks may be more volatile than the market price of our existing common stock has historically been. The market prices of the Liberty Interactive common stock and the Liberty Capital common stock may be materially affected by, among other things:

- actual or anticipated fluctuations in either group's operating results or in the operating results of particular companies attributable to either group;
- potential acquisition activity by us or the companies in which we invest;
- issuances of debt or equity securities to raise capital by us or the companies in which we invest and the manner in which that debt or the proceeds of an equity issuance are attributed to each of the groups;

- changes in financial estimates by securities analysts regarding the Liberty Interactive common stock or the Liberty Capital common stock or the companies attributable to either group;

- the complex nature and the potential difficulties investors may have in understanding the terms of the Liberty Interactive common stock and the Liberty Capital common stock, as well as concerns regarding the possible effect of certain of those terms on an investment in the stock relating to either group; or

- general market conditions.

We cannot assure you that the combined market value of the Liberty Interactive common stock and the Liberty Capital common stock after the completion of the reclassification will equal or exceed the current combined market value of our existing Series A common stock and Series B common stock. In addition, until an orderly trading market develops for the Liberty Interactive common stock and the Liberty Capital common stock following completion of the reclassification, the trading prices of the Liberty Capital common stock and Liberty Interactive common stock may fluctuate significantly.

The market value of both the Liberty Interactive common stock and the Liberty Capital common stock could be adversely affected by events involving the assets and businesses attributed to only one of such groups. Events relating to one of our groups, such as earnings announcements or announcements of new products or services, acquisitions or dispositions that the market does not view favorably, may adversely affect the market value of the common stock of both of our groups. Because we will be the issuer of both the Liberty Interactive common stock and the Liberty Capital common stock, an adverse market reaction to events relating to the assets and businesses attributed to one of our groups may, by association, cause an adverse reaction to the common stock of the other group. This could occur even if the triggering event is not material to us as a whole. In addition, the incurrence of significant indebtedness by us or any of our subsidiaries on behalf of one group, including indebtedness incurred or assumed in connection with acquisitions of or investments in businesses, would continue to affect our credit rating, and that of our subsidiaries, and therefore could increase the borrowing costs of businesses attributable to the other group or the borrowing costs of Liberty as a whole.

We may not pay dividends equally or at all on Liberty Interactive common stock or Liberty Capital common stock. We do not presently intend to pay cash dividends on either the Liberty Interactive common stock or the Liberty Capital common stock for the foreseeable future. However, we have the right to pay dividends on the shares of each group of our common stock in equal or unequal amounts. In addition, any dividends or distributions on, or repurchases of, shares relating to either group will reduce our assets legally available to be paid as dividends on the shares relating to the other group.

The adoption of a tracking stock capital structure could create conflicts of interest, and our board of directors may make decisions that could adversely affect only some holders of our common stock. The adoption of a tracking stock capital structure could give rise to occasions when the interests of holders of stock of one group might diverge or appear to diverge from the interests of holders of stock of the other group. In addition, given the nature of their businesses, there may be inherent conflicts of interests between the Interactive Group and the Capital Group. Our officers and directors owe fiduciary duties to all of our stockholders. The fiduciary duties owed by such officers and directors are to Liberty as a whole, and decisions deemed to be in the best interest of Liberty may not be in the best interest of a particular group when considered independently. Examples include:

- decisions as to the terms of any business relationships that may be created between the Interactive Group and the Capital Group or the terms of any transfer of assets between the groups;

- decisions as to the allocation of consideration between the holders of the Liberty Interactive common stock and the Liberty Capital common stock, or between the stocks relating to either group, to be received in connection with a merger involving Liberty;

- decisions as to the allocation of corporate opportunities between the two groups, especially where the opportunities might meet the strategic business objectives of both groups;
- decisions as to operational and financial matters that could be considered detrimental to one group but beneficial to the other;
- decisions as to the conversion of shares of Liberty Interactive common stock into shares of Liberty Capital common stock;
- decisions regarding the creation of, and, if created, the subsequent increase or decrease of any inter-group interest that one group may own in the other;
- decisions as to the internal or external financing attributable to business or assets attributed to either group;
- decisions as to the dispositions of assets of either group; and
- decisions as to the payment of dividends on the stock relating to either group.

In addition, if directors own disproportionate interests (in percentage or value terms) in the Liberty Interactive common stock or the Liberty Capital common stock, that disparity could create or appear to create conflicts of interest when they are faced with decisions that could have different implications for the holders of the Liberty Interactive common stock and the Liberty Capital common stock.

Other than pursuant to the management and allocation policies described in this proxy statement/prospectus, we have not adopted any specific procedures for consideration of matters involving a divergence of interests among holders of shares of stock relating to the two different groups, or among holders of different series of stock relating to a specific group. See "The Reclassification Proposal Management and Allocation Policies." Rather than develop additional specific procedures in advance, our board of directors intends to exercise its judgment from time to time, depending on the circumstances, as to how best to:

- obtain information regarding the divergence (or potential divergence) of interests;
- determine under what circumstances to seek the assistance of outside advisers;
- determine whether a committee of our board of directors should be appointed to address a specific matter and the appropriate members of that committee; and
- assess what is in our best interests and the best interests of all of our stockholders.

Our board of directors believes the advantage of retaining flexibility in determining how to fulfill its responsibilities in any such circumstances as they may arise outweighs any perceived advantages of adopting additional specific procedures in advance.

Holders of shares of stock relating to a particular group may not have any remedies if any action by our directors or officers has an adverse effect on only that stock, or on a particular series of that stock. Principles of Delaware law and the provisions of our certificate of incorporation may protect decisions of our board of directors that have a disparate impact upon holders of shares of stock relating to a particular group, or upon holders of any series of stock relating to a particular group. Under Delaware law, the board of directors has a duty to act with due care and in the best interests of all of our stockholders, regardless of the stock, or series, they hold. Principles of Delaware law established in cases involving differing treatment of multiple classes or series of stock provide that a board of directors owes an equal duty to all common stockholders and does not have separate or additional duties to any subset of stockholders. Recent judicial opinions in Delaware involving tracking stocks have established that decisions by directors or officers involving differing treatment of holders of tracking stocks may be judged under the business judgment rule. The business judgment rule generally

provides that a director or officer of Liberty may be deemed to have satisfied his or her fiduciary duties to Liberty if that person acts in a manner he or she believes in good faith to be in the best interests of Liberty as a whole, and not of any single group of our stockholders. As a result, in some circumstances, our directors or officers may be required to make a decision that is viewed as adverse to the holders of shares relating to a particular group or to the holders of a particular series of that stock. Therefore, under the principles of Delaware law referred to above and the business judgment rule, you may not be able to challenge decisions that you believe have a disparate impact upon the stockholders of the two groups if our board of directors is disinterested, adequately informed with respect to its decisions and acts in good faith, on behalf of all our stockholders.

Our board of directors may change the management and allocation policies to the detriment of either group without stockholder approval. Our board of directors has adopted certain management and allocation policies to serve as guidelines in making decisions regarding the relationships between the Interactive Group and the Capital Group with respect to matters such as tax liabilities and benefits, inter-group loans, attribution of assets acquired after the reclassification to either group, financing alternatives, corporate opportunities and similar items. See "The Reclassification Proposal Management and Allocation Policies." Our board of directors may at any time change, or make exceptions to these policies. Because these policies relate to matters concerning the day to day management of Liberty as opposed to significant corporate actions, such as a merger involving Liberty or a sale of substantially all of our assets, no stockholder approval is required with respect to their adoption or amendment. A decision to change, or make exceptions to, these policies or adopt additional policies could disadvantage one group while advantaging the other group.

Stockholders will not vote on how to attribute consideration received in connection with a merger involving Liberty among holders of Liberty Interactive common stock and Liberty Capital common stock. Our certificate of incorporation does not contain any provisions governing how consideration received in connection with a merger or consolidation involving Liberty is to be attributed to the holders of Liberty Interactive common stock and holders of Liberty Capital common stock or to the holders of different series of stock, and neither the holders of Liberty Interactive common stock nor the holders of Liberty Capital common stock will have a separate class vote in the event of such a merger or consolidation. Consistent with applicable principles of Delaware law, our board of directors will seek to divide the type and amount of consideration received in a merger or consolidation involving Liberty between holders of Liberty Interactive common stock and Liberty Capital common stock in a fair manner. As the different ways the board of directors may divide the consideration between holders of stock relating to the different groups, and among holders of different series of stock, might have materially different results, the consideration to be received by holders of Liberty Interactive common stock and Liberty Capital common stock in any such merger or consolidation may be materially less valuable than the consideration they would have received if they had a separate class vote on such merger or consolidation.

We may dispose of assets of either the Interactive Group or the Capital Group without your approval. Delaware law requires stockholder approval only for a sale or other disposition of all or substantially all of the assets of Liberty taken as a whole, and our amended charter does not require a separate class vote in the case of a sale of a significant amount of assets of either group. As long as the assets attributed to either the Interactive Group or the Capital Group represent less than substantially all of our assets, we may approve sales and other dispositions of any amount of the assets of that group without any stockholder approval. Based on the initial composition of the groups, we believe that a sale of all or substantially all of the assets of either group, on a stand alone basis, would not be considered a sale of substantially all of the assets of Liberty requiring stockholder approval.

If we dispose of all or substantially all of the assets of either group (which means, for this purpose, assets representing 80% of the fair market value of the total assets of the disposing group, as determined by our board of directors), we would be required, if the disposition is not an exempt disposition under the terms of our certificate of incorporation, to choose one or more of the following three alternatives:

- declare and pay a dividend on the disposing group's common stock;
- redeem shares of the disposing group's common stock according to ratios set out in our certificate of incorporation and described in this document under " Description of Liberty Interactive Common Stock and Liberty Capital Common Stock Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group;" and/or
- convert all of the disposing group's outstanding common stock into common stock of the other group.

In this type of a transaction, holders of the disposing group's common stock may receive less value than the value that a third-party buyer might pay for all or substantially all of the assets of the disposing group.

Our board of directors will decide, in its sole discretion, how to proceed and is not required to select the option that would result in the highest value to holders of either group of our common stock.

Holders of Liberty Interactive common stock or Liberty Capital common stock may receive less consideration upon a sale of the assets attributed to that group than if that group were a separate company. If the Interactive Group or the Capital Group were a separate, independent company and its shares were acquired by another person, certain costs of that sale, including corporate level taxes, might not be payable in connection with that acquisition. As a result, stockholders of a separate, independent company might receive a greater amount of proceeds than the holders of Liberty Interactive common stock or the Liberty Capital common stock would receive upon a sale of all or substantially all of the assets of the group to which their shares relate. In addition, we cannot assure you that in the event of such a sale the per share consideration to be paid to holders of Liberty Interactive common stock or Liberty Capital common stock, as the case may be, will be equal to or more than the per share value of that share of stock prior to or after the announcement of a sale of all or substantially all of the assets of the applicable group.

If we sell all or substantially all of the assets attributed to the Interactive Group or the Capital Group, our board of directors may take actions with respect to the shares of common stock of that group which could result in a loss of value for stockholders. We have the right to dispose of the assets of the Interactive Group or the Capital Group, in whole or in part. If we dispose of all or substantially all of the assets of either group, then our board of directors can decide to: (i) dividend an amount equal to the net proceeds to holders of that group's common stock, on a *pro rata* basis; (ii) convert the shares of that group's common stock into shares of the other group's common stock at a 110% premium to market; (iii) redeem shares of that group's common stock for cash, securities or other assets with a fair value equal to such net proceeds; or (iv) do a combination of the foregoing. There is no requirement that the action taken by the board of directors be tax-free to the holders of the shares of common stock of that group. In any of the foregoing cases, stockholders could suffer a loss in the value of their investment in Liberty.

Following the first anniversary of the reclassification (absent an earlier triggering event), our board of directors may in its sole discretion elect to convert Liberty Interactive common stock into Liberty Capital common stock, thereby changing the nature of your investment and possibly diluting your economic interest in Liberty, which could result in a loss in value to you. Our amended charter will permit our board of directors, in its sole discretion, to convert all of the outstanding shares of Liberty Interactive common stock into shares of Liberty Capital common stock on the terms described under "The Reclassification Proposal Description of Liberty Interactive Common Stock and Liberty Capital Common Stock Conversion and Exchange." A conversion would preclude the holders of stock in both groups from retaining their investment in a security that is intended to reflect separately the performance of the relevant group. We cannot predict the impact on the market value of our tracking stocks of (1) our board of directors' ability to effect any such conversion or (2) the exercise of this conversion right by us. In addition, our board of directors may effect such a conversion at a time when the market value of its stock could cause the stockholders of one group to be disadvantaged.

Holders of Liberty Interactive common stock and holders of Liberty Capital common stock will vote together and will have limited separate voting rights. Holders of Liberty Interactive common stock and Liberty Capital common stock will vote together as a single class, except in certain limited circumstances prescribed by our amended charter and under Delaware law. Each share of Series B common stock of each group will have ten votes per share, and each share of Series A common stock of each group will have one vote per share. Holders of Series C common stock of either group will have no voting rights, other than those required under Delaware law. When holders of Liberty Interactive common stock and Liberty Capital common stock vote together as a single class, holders having a majority of the votes will be in a position to control the outcome of the vote even if the matter involves a conflict of interest among our stockholders or has a greater impact on one group than the other.

Our capital structure as well as the fact that the Interactive Group and the Capital Group are not independent companies may inhibit or prevent acquisition bids for the Interactive Group or the Capital Group. If the Interactive Group and the Capital Group were separate independent companies, any person interested in acquiring either the Interactive Group or the Capital Group without negotiating with management could seek control of that group by obtaining control of its outstanding voting stock, by means of a tender offer, or by means of a proxy contest. Although we intend Liberty Interactive common stock and Liberty Capital common stock to reflect the separate economic performance of the Interactive Group and the Capital Group, respectively, those groups are not separate entities and a person interested in acquiring only one group without negotiation with our management could obtain control of that group only by obtaining control of a majority in voting power of all of the outstanding shares of our tracking stocks. The existence of shares of common stock, and different series of shares, relating to different groups could present complexities and in certain circumstances pose obstacles, financial and otherwise, to an acquiring person that are not present in companies which do not have capital structures similar to ours.

If either the Liberty Interactive common stock or the Liberty Capital common stock or both, were not treated as stock of our company for tax purposes, several adverse tax consequences would result to you and to us. While we believe that no income, gain or loss will be recognized by you or us for U.S. federal income tax purposes as a result of the reclassification, except for any cash received by you instead of fractional shares of Liberty Interactive common stock or Liberty Capital common stock, there are no court decisions or other authorities bearing directly on the effect of issuing stock with features similar to the Liberty Interactive common stock and the Liberty Capital common stock. In addition, the IRS has announced that it will not issue rulings on the classification of an instrument with terms similar to the Liberty Interactive common stock or the Liberty Capital common stock. Therefore, the tax treatment of the reclassification is subject to some uncertainty. It is possible, therefore, that the IRS could successfully assert that the receipt of Liberty Interactive common stock or Liberty Capital common stock or both in the reclassification, as well as any subsequent conversion of Liberty Interactive common stock into Liberty Capital common stock, is taxable to you and/or to us.

If Liberty Interactive common stock or Liberty Capital common stock or both represent property other than stock of our company (which we refer to as Other Property), the receipt of Liberty Interactive common stock or Liberty Capital common stock by you might be treated as a fully taxable dividend in an amount equal to the fair market value of such stock constituting Other Property (subject in the case of stockholders that are corporations, to any applicable dividends received deduction) or might be treated as a distribution in complete liquidation of Liberty, in which case you would recognize gain or loss with respect to your shares of our outstanding common stock held immediately prior to the reclassification. Furthermore, we or our subsidiaries would recognize a significant taxable gain as a result of the reclassification in an amount equal to the excess of the fair market value of such stock constituting Other Property over its federal income tax basis to us or our subsidiaries allocable to such Other Property. Pursuant to the management and allocation policies (described elsewhere in this proxy statement/prospectus), the cash for the payment of these taxes would be drawn from funds attributable to the Capital Group. In addition, we may no longer be able to file a consolidated U.S. federal income tax return which includes eligible entities attributable to both the Interactive Group and the Capital Group. These tax liabilities, if they arise, would be likely to have a material adverse effect on us and each group.

Changes in the tax law or in the interpretation of current tax law may result in the cessation of the issuance of shares of Liberty Interactive common stock and/or Liberty Capital common stock or the conversion of Liberty Interactive common stock into Liberty Capital common stock. If, due to a change in tax law or a change in the interpretation of current tax law, there are adverse tax consequences resulting from the issuance of Liberty Interactive common stock and/or Liberty Capital common stock, it is possible that we would not issue additional shares of Liberty Interactive common stock and/or Liberty Capital common stock even if we would otherwise choose to do so. This possibility could affect the value of Liberty Interactive common stock and Liberty Capital common stock then outstanding. In addition, we may elect to convert Liberty Interactive common stock into Liberty Capital common stock, thereby diluting the interests of holders of Liberty Capital common stock and changing the nature of your investment, which could result in a loss in value.

It may be difficult for a third party to acquire us, even if doing so may be beneficial to our stockholders. Certain provisions of our amended charter and our bylaws may discourage, delay or prevent a change in control of Liberty that a stockholder may consider favorable. These provisions include:

- authorizing a capital structure with multiple series of common stock, a Series B common stock of each group that entitles the holders to ten votes per share, a Series A common stock of each group that entitles the holder to one vote per share, and a Series C common stock of each group that except as otherwise required by applicable law, entitles the holder to no voting rights;

- authorizing the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;

- classifying our board of directors with staggered three-year terms, which may lengthen the time required to gain control of our board of directors;

- limiting who may call special meetings of stockholders;

- prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of the stockholders; and

- establishing advance notice requirements for nominations of candidates for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Our chairman, John C. Malone, has and, immediately following the reclassification, will continue to have the power to direct the vote of approximately 30% of our outstanding voting power and approximately 89% of our outstanding Series B shares.

Immediately following the reclassification, each holder of our existing common stock will hold common stock representing the same aggregate percentage voting power as that holder held immediately prior to the reclassification. However, as a result of the conversion ratios applied in the reclassification, immediately after the issuance of the tracking stocks, holders of Liberty Interactive common stock, in the aggregate, will hold approximately 83% of the total voting power of our common stock.

Factors Relating to Liberty, the Interactive Group and the Capital Group

The risks described below apply to us and to the businesses, assets and liabilities attributable to both the Interactive Group and the Capital Group.

The historical financial information of the Interactive Group and the Capital Group included in this proxy statement/prospectus may not necessarily reflect their results as separate companies. One of the reasons for the creation of a tracking stock is to permit equity investors to apply more specific criteria in valuing the shares of a particular group, such as comparisons of earnings multiples with those of other companies in the same business sector. In valuing shares of Liberty Interactive common stock and Liberty Capital common stock, investors should recognize that the historical financial information of the Interactive Group and the Capital Group included in this proxy statement/prospectus has been extracted from our consolidated financial statements and may not necessarily reflect what the Interactive Group's and the Capital Group's results of operations, financial condition and cash flows would have been had the Interactive Group and the Capital Group been separate, stand-alone entities pursuing independent strategies during the periods presented.

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 stake) attributed to either the Interactive Group or the Capital Group. 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 it to exercise influence over the management or policies of a business affiliate, enable it to prevent the sale of material assets by a business affiliate in which it owns less than a majority voting interest or prevent it from paying dividends or making distributions to its stockholders or partners, they will not enable us to cause these actions to be taken.

If we fail to meet required capital calls to a business affiliate, we could be forced to sell our interest in that company, our interest in that company could be diluted or we could forfeit important rights. We are a party to stockholder and partnership agreements relating to our equity interest in business affiliates that provide for possible capital calls on stockholders and partners. Our failure to meet a capital call, or other commitment to provide capital or loans to a particular business affiliate, may have adverse consequences to us and the group to which that business affiliate is attributed. These consequences may include, among others, the dilution of our equity interest in that company, the forfeiture of our right to vote or exercise other rights, the right of the other stockholders or partners to force us to sell its interest at less than fair value, the forced dissolution of the company to which we have made the commitment or, in some instances, a breach of contract action for damages against us. Our ability to meet capital calls or other capital or loan commitments is subject to its ability to access cash. See " A substantial portion of the consolidated debt attributed to each group is held at the parent company level, and we could be unable in the future to obtain cash in amounts sufficient to service that debt and our other financial obligations." below.

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 take significant impairment charges due to other than temporary declines in the market value of its available for sale securities. Included among the assets attributable to each group are equity interests in one or more publicly traded companies which are or will be 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 are required by accounting principles generally accepted in the United States to determine, from time to time, whether a decline in the market value of any of those investments below the cost for that investment is other than temporary. If we determine that the decline is other than temporary, we are required to write down our cost to a new cost basis, with the amount of the write-down accounted for as a realized loss in the determination of net income for the period in which the write-down occurs. We have at times realized significant losses in prior periods due to other than temporary declines in the fair value of certain of our available for sale securities, and we and either group may be required to realize further losses of this nature in future periods. A number of factors are used in determining the fair value of an investment and whether any decline in an investment is other than temporary. As the assessment of fair value and any resulting impairment losses requires a high degree of judgment and includes significant estimates and assumptions, the actual amount we may eventually realize for an investment could differ materially from our or their assessment of the value of that investment made in an earlier period. In addition, our ability to liquidate these interests without adversely affecting their value may be limited.

A substantial portion of the consolidated debt attributed to each group is held at the parent company 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 September 30, 2005, we had $9.40 billion of debt outstanding at the parent company level. While portions of this debt will be attributed to each group, the issuer of this debt (Liberty) will not change. Our ability to meet our financial obligations will depend upon our ability to access cash. Our sources of cash include our available cash balances, net cash from operating activities, dividends and interest from its investments, availability under credit facilities, 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 generally do not 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 us.

Both the Interactive Group and the Capital Group depend on a limited number of potential customers for carriage of their programming. The cable television and direct-to-home satellite industries have been undergoing a period of consolidation. As a result, the number of potential buyers of the programming services attributable to these groups is decreasing. In this more concentrated market, there can be no assurance that the owned and affiliated program suppliers attributed to either group 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 both group's subsidiaries and business affiliates obsolete or non-competitive. The subsidiaries and business affiliates attributed to each group 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 the group to which they are attributed.

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 and those attributed to either group. 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 and those attributed to either group.

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

The subsidiaries and business affiliates attributable to each group are subject to risks of adverse government regulation. Programming services, cable television systems, the Internet, telephony 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 entities. 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 the Interactive Group's subsidiaries' and business affiliates' products and services sold via the Internet, television and telephone is subject to interpretation by the applicable taxing authorities, and no assurance can be given that such authorities will not take a contrary position to that taken by those subsidiaries and business affiliates, which could have a material adverse effect on their business. In addition, there have been numerous attempts at the federal, state and local levels to impose additional taxes on online commerce transactions. Moreover, substantially every foreign country in which our subsidiaries or business affiliates have, or may in the future make, an investment regulates, in varying degrees, the distribution, content and ownership of programming services and foreign investment in programming companies and wireline and wireless cable communications, satellite and telephony services and the Internet. Further material changes in the law and regulatory requirements must be anticipated, and there can be no assurance that the business and the business of the affiliates attributed to each group will not be adversely affected by future legislation, new regulation or deregulation.

The success of certain of the groups' 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 the subsidiaries and business affiliates attributed to each group 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.

Certain of the subsidiaries and business affiliates attributed to both groups have significant operations outside of the United States that are subject to numerous operational and financial risks. Certain of the subsidiaries and business affiliates attributed to both groups have significant 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.

The success of certain of the subsidiaries and business affiliates attributed to each group is dependent upon 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 DTH satellite providers negotiate affiliation agreements and, in the case of cable programming, when advertising rates are negotiated. Consequently, low public acceptance of cable programs and premium subscription television program services will have an adverse effect on the results of operations of the Interactive Group and the Capital Group.

Increased programming and content costs may adversely affect profits. Subsidiaries and business affiliates attributable to each group 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.

Factors Relating to QVC

The risks described below are unique to QVC, which will initially constitute the primary business and sole operating consolidated subsidiary attributed to the Interactive Group.

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'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. In April 2005, we announced that two senior officers of QVC, including its long-time CEO, had decided to retire at different points in time over the next eighteen months. We also recently announced the hiring of a new president for QVC who will assume the role of chief executive officer after a brief transition period. Although we are implementing transition plans at QVC, there is no assurance that the new management team will be able to execute QVC's business model in a manner that will allow QVC to sustain growth and continued success. In addition, we also can not assure you that if QVC experiences additional turnover of its key employees, they will be able to recruit and retain acceptable replacements because the market for such employees is very competitive and limited.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements which, by definition, involve risks and uncertainties. In some cases, you can identify these statements by our use of forward-looking words such as "may," "will," "should," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential," "intend" and other terms of similar substance used in this document. 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 statement of expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

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

changes in the nature of key strategic relationships with partners and joint venturers;

competitor responses to our products and services, and the products and services of the entities in which we have interests; and

threatened terrorist attacks and ongoing military action in the Middle East and other parts of the world.

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this document, 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 its expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. When considering such forward-looking statements, you should keep in mind the factors described in "Risk Factors" and other cautionary statements contained or incorporated in this document. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

THE SPECIAL MEETING

Time, Place and Date

The special meeting of our stockholders is to be held at 9:00 a.m., local time, on [ ], 2006 at [ ].

Purpose

At the special meeting, you will be asked to consider and vote on the reclassification proposal, which is described in greater detail under "The Reclassification Proposal General."

Quorum

In order to carry on the business of the special meeting, a quorum of stockholders must be present. This means that at least a majority of the aggregate voting power represented by the outstanding shares of our common stock must be represented at the special meeting, either in person or by proxy. For purposes of determining a quorum, your shares will be included as represented at the meeting even if you indicate on your proxy that you abstain from voting. In addition, if a broker, who is a record holder of shares, indicates on a form of proxy that the broker does not have discretionary authority to vote those shares on the reclassification proposal, or if those shares are voted in circumstances in which proxy authority is defective or has been withheld with respect to the reclassification proposal, these shares (which we refer to as "broker non-votes") will be treated as present for purposes of determining the presence of a quorum. See " Voting Procedures for Shares Held in Street Name Effect of Broker Non-Votes" below.

Who May Vote

Holders of our Series A common stock and Series B common stock, as recorded in our stock register as of 5:00 p.m., New York City time, on [ ], 2006 (which is the record date for the special meeting), may vote at the special meeting or at any adjournment or postponement thereof.

Votes You Have

At the special meeting, holders of our Series A common stock will have one vote and holders of Series B common stock will have 10 votes, in each case, for each share that our records show they owned as of 5:00 p.m., New York City time, on [ ], 2006, which is the record date for the special meeting. Holders of our Series A common stock and our Series B common stock will vote together as a single class.

Recommendation of Our Board of Directors

Our board of directors has approved the reclassification proposal and recommends that you vote "**FOR**" the reclassification proposal.

Votes Required

Approval of the reclassification proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of our Series A common stock and our Series B common stock outstanding on the record date for the special meeting that are present, in person or by proxy, at the special meeting, voting together as a single class.

Shares Outstanding

As of [ ], 2006, an aggregate of [ ] shares of our Series A common stock and [ ] shares of our Series B common stock were outstanding and would have been entitled to vote at the special meeting if [ ], 2006 had been the record date for the special meeting.

Number of Holders

We expect there to be, as of the record date for the special meeting, approximately [ ] record holders of our Series A common stock and approximately [ ] record holders of our Series B common stock (which amounts do not include the number of stockholders whose shares are held of record by banks, brokers or other nominees, but include each such institution as one holder).

Voting Procedures for Record Holders

Holders of record of our common stock as of the record date for the special meeting may vote in person thereat. Alternatively, they may give a proxy by completing, signing, dating and returning the proxy card that is being included with the mailing of this proxy statement/prospectus, or by voting by telephone or over the Internet. Unless subsequently revoked, shares of our common stock represented by a proxy submitted as described below and received at or before the special meeting will be voted in accordance with the instructions on the proxy.

YOUR VOTE IS IMPORTANT. It is recommended that you vote by proxy even if you plan to attend the special meeting. You may change your vote at the special meeting. To submit a written proxy by mail, you should complete, sign, date and mail the proxy in accordance with its instructions.

If any other matters are properly presented before the special meeting, the persons you choose as proxies will have discretion to vote or to act on these matters according to their best judgment, unless you indicate otherwise on your proxy.

If a proxy is signed and returned by a record holder without indicating any voting instructions, the shares of our common stock represented by the proxy will be voted "**FOR**" the approval of the reclassification proposal.

Voting Procedures for Shares Held in Street Name

General. If you hold your shares in the name of a broker, bank or other nominee, you should follow the instructions provided by your broker, bank or other nominee when voting your shares of our common stock or when granting or revoking a proxy.

Effect of Broker Non-Votes. Shares represented by "broker non-votes" will be deemed shares not entitled to vote and will not be included for purposes of determining the aggregate voting power and number of shares represented and entitled to vote on the reclassification proposal.

Revoking a Proxy

Before your proxy is voted, you may change your vote by telephone or over the Internet (if you originally voted by telephone or over the Internet), by voting in person at the special meeting or by delivering a signed proxy revocation or a new signed proxy with a later date to [ ]. Any signed proxy revocation or new signed proxy must be received before the start of the special meeting.

Your attendance at the special meeting will not, by itself, revoke your proxy.

If your shares are held in an account by a broker, bank or other nominee, you should contact your nominee to change your vote.

Solicitation of Proxies

The accompanying proxy for the special meeting is being solicited on behalf of our board of directors. In addition to this mailing, our employees may solicit proxies personally or by telephone. We pay the cost of soliciting these proxies. We also reimburse brokers and other nominees for their expenses in sending these materials to you and getting your voting instructions.

Exchange of Shares

If the reclassification proposal is approved and the reclassification is completed, you will receive written instructions from the stock transfer agent on how to exchange your Liberty common stock for shares of Liberty Interactive common stock and Liberty Capital common stock. You are urged **NOT** to send your shares of our existing common stock with your proxy card.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

The following table sets forth information, to the extent known by us or ascertainable from public filings, concerning shares of our common stock beneficially owned by each person or entity (excluding any of our directors and executive officers) known by us to own more than five percent of the outstanding shares of our common stock.

The percentage ownership information is based upon 2,681,750,785 shares of our Series A common stock and 121,062,825 shares of our Series B common stock outstanding as of January 3, 2006.

Name and Address of Beneficial Owner	Series of Stock	Number of Shares	Percent of Class	Voting Power
		(in thousands)		
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	Series A	141,455(1)	5.3%	*

* Less than one percent.

(1) This number of shares of common stock is based upon the Schedule 13G dated December 31, 2004, filed by Capital Research and Management Company with respect to our Series A common stock. Capital Research, an investment advisor, is the beneficial owner of 141,454,800 shares of our Series A common stock, as a result of acting as investment advisor to various investment companies, but disclaims beneficial ownership pursuant to Rule 13d-4. The Schedule 13G reflects that Capital Research has no voting power over and sole dispositive power over these shares.

Security Ownership of Management

The following table sets forth information with respect to the beneficial ownership by each of our directors, our Chief Executive Officer and our four other most highly compensated executive officers as of December 31, 2005 and by all of our directors and executive officers as a group of shares of our Series A common stock and Series B common stock.

The security ownership information is given as of January 3, 2006 and, in the case of percentage ownership information, is based upon 2,681,750,785 shares of our Series A common stock and 121,062,825 shares of our Series B common stock, in each case outstanding on that date.

Shares of common stock issuable upon exercise or conversion of options, warrants and convertible securities that were exercisable or convertible on or within 60 days of January 3, 2006, are deemed to be outstanding and to be beneficially owned by the person holding the options, warrants or convertible securities for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. For purposes of the following presentation, beneficial ownership of shares of our Series B common stock, though convertible on a one-for-one basis into shares of our Series A common stock, is reported as beneficial ownership of our Series B common stock only, and not as beneficial ownership of our Series A common stock. So far as is known to us, the persons indicated below have sole voting power with respect to the shares indicated as owned by them, except as otherwise stated in the notes to the table.

The number of shares indicated as owned by the following persons includes interests in shares held by our defined contribution 401(k) plan (Liberty 401(k) Savings Plan), in each case as of December 31,

2005. The shares held by the trustee of the 401(k) plan for the benefit of these persons are voted as directed by such persons.

Name of Beneficial Owner	Title of Class or Series	Amount and Nature of Beneficial Ownership	Percent of Class	Voting Power
		(in thousands)		
John C. Malone	Liberty Series A	15,814(1)(2)(3)(4)	*	30.0%
	Liberty Series B	118,681(1)(4)(5)	89.5%	
Robert R. Bennett	Liberty Series A	5,807(6)(7)(8)	*	4.3%
	Liberty Series B	16,680(7)(8)	12.1%	
Donne F. Fisher	Liberty Series A	311(9)	*	*
	Liberty Series B	597	*	
Paul A. Gould	Liberty Series A	1,513(10)	*	*
	Liberty Series B	600	*	
Gregory B. Maffei	Liberty Series A	344(11)		
	Liberty Series B	0		
David E. Rapley	Liberty Series A	30(12)(13)	*	*
	Liberty Series B	0		
M. LaVoy Robison	Liberty Series A	28(12)	*	*
	Liberty Series B	0		
Larry E. Romrell	Liberty Series A	265(14)	*	*
	Liberty Series B	3	*	
David J.A. Flowers	Liberty Series A	2,067(15)(16)(17)	*	*
	Liberty Series B	0		
Albert E. Rosenthaler	Liberty Series A	572(18)(19)	*	*
	Liberty Series B	0		
Christopher W. Shean	Liberty Series A	586(20)(21)(22)	*	*
	Liberty Series B	0		
Charles Y. Tanabe	Liberty Series A	2,496(22)(23)(24)(25)	*	*
	Liberty Series B	0		
All directors and executive officers as a group (12 persons)	Liberty Series A	29,839(3)(8)(13)(17)(26)(27)(28)(29)	1.1%	33.4%
	Liberty Series B	136,561(5)(8)(27)(29)	91.5%	

* Less than one percent

(1) Includes 1,505,043 shares of our Series A common stock and 3,409,436 shares of our Series B common stock held by Mr. Malone's wife, Mrs. Leslie Malone, as to which shares Mr. Malone has disclaimed beneficial ownership.

(2) Includes 765,684 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(3) Includes 3,300 shares of our Series A common stock held by a trust with respect to which Mr. Malone is the sole trustee and, with his wife, retains a unitrust interest in the trust.

(4) Includes 1,375 shares of our Series A common stock and 11,485,402 shares of our Series B common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006. Mr. Malone has the right to convert the options to purchase shares of our

Series B common stock into options to purchase shares of our Series A common stock.

(5)
In February 1998, in connection with the settlement of certain legal proceedings relative to the Estate of Bob Magness, the late founder and former Chairman of the Board of our former parent company, TCI, TCI entered into a call agreement with Mr. Malone and Mr. Malone's wife and a call agreement with the Magness Group. In connection with AT&T's acquisition of TCI, TCI assigned to us its rights under these call agreements. As a result, we have the right, under certain circumstances, to acquire shares of our Series B common stock owned by the Malones. The call agreement also prohibits the Malones from disposing of their shares of our Series B common stock, except for certain exempt transfers (such as transfers to related parties or to the other group or public sales of up to an aggregate of 5% of their shares of our Series B common stock after conversion to shares of our Series A common stock) and except for a transfer made in compliance with our call rights.

(6)
Includes 29,880 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(7) Includes 2,025,640 shares of our Series A common stock and 16,679,853 shares of our Series B common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006. Mr. Bennett has the right to convert the options to purchase shares of our Series B common stock into options to purchase shares of our Series A common stock.

(8) Includes 1,246,596 shares of our Series A common stock and 400 shares of our Series B common stock owned by Hilltop Investments, Inc. which is jointly owned by Mr. Bennett and his wife, Mrs. Deborah Bennett.

(9) Includes 22,000 shares of our Series A common stock that are subject to options and stock appreciation rights which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006.

(10) Includes 30,750 shares of our Series A common stock that are subject to options and stock appreciation rights which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006.

(11) Includes 343,750 shares of our Series A common stock that are subject to options and stock appreciation rights which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006.

(12) Includes 22,000 shares of our Series A common stock that are subject to stock appreciation rights which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006.

(13) Includes 2,213 shares of our Series A common stock owned by Rapley Consulting, Inc. which is jointly owned by Mr. Rapley and his wife, Mrs. Sandra Rapley.

(14) Includes 40,263 shares of our Series A common stock that are subject to options and stock appreciation rights which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006.

(15) Includes 13,702 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(16) Includes 1,644,364 shares of our Series A common stock that are subject to options and stock appreciation rights which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006.

(17) Includes 27,000 shares of our Series A common stock owned by AIKD Investment, Inc. of which Mr. Flowers is the sole shareholder.

(18) Includes 6,538 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(19) Includes 572,100 shares of our Series A common stock that are subject to options and stock appreciation rights which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006.

(20) Includes 13,800 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(21) Includes 520,948 shares of our Series A common stock that are subject to options and stock appreciation rights which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006.

(22) Includes 47,500 restricted shares of our Series A common stock, 2,500 of which will vest within 60 days of, January 3, 2006.

(23) Includes 7,574 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(24) Includes 3,068 shares of our Series A common stock held by Mr. Tanabe's wife, Arlene Bobrow, as to which shares Mr. Tanabe has disclaimed beneficial ownership.

(25) Includes 2,149,152 shares of our Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006.

(26) Includes 765,684 shares of our Series A common stock held by the Liberty 401(k) Savings Plan.

(27) Includes 1,508,111 shares of our Series A common stock and 3,409,436 shares of our Series B common stock held by relatives of certain directors and executive officers, as to which shares beneficial ownership by such directors and executive officers has been disclaimed.

(28) Includes 95,000 restricted shares of our Series A common stock, 5,000 of which will vest within 60 days of, January 3, 2006.

(29) Includes 7,394,342 shares of our Series A common stock and 28,165,255 shares of our Series B common stock that are subject to options and stock appreciation rights which were exercisable as of, or will be exercisable within 60 days of, January 3, 2006. The options to purchase shares of our Series B common stock may be converted into options to purchase shares of our Series A common stock.

Change of Control

We know of no arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of our company.

THE RECLASSIFICATION PROPOSAL

The description of the material terms of the reclassification proposal set forth below is not complete. In addition, we qualify the applicable portions of this description by reference to the form of the charter amendment, which is attached as Annex A. We urge all stockholders to read the charter amendment in its entirety.

General

At the special meeting you will be asked to vote on the reclassification proposal, which is a proposal to amend and restate our certificate of incorporation to provide for the creation of two new tracking stocks intended to track and reflect the separate economic performance of the Interactive Group and the Capital Group, which are described in detail in this proxy statement/prospectus. The terms of the two tracking stocks would, among other things:

- provide for the creation of three series within each tracking stock which have different voting rights;
- provide the board of directors with broad discretion as to, among other things:
  - the businesses, assets and liabilities to be attributed to each group;
  - the creation, form and adjustment of any inter-group interests;
  - the timing of any conversion of the Liberty Interactive common stock into shares of Liberty Capital common stock (except during the first year after the issuance of the tracking stock); and
  - the redemption of shares of either group and the consideration to be used to effect such redemption;
- provide a different per-share liquidation value for each tracking stock, based largely on the initial relative trading values of the two tracking stocks; and
- in some cases permit the sale of all or substantially all of the assets of a group without a vote of the holders of the stock of that group, if the net proceeds of such sale are distributed to holders of that stock by means of a dividend or redemption, that stock is converted into stock of the other group or a combination of the foregoing is effected.

The Interactive Group will initially consist of our subsidiary QVC, Inc. and our interest in IAC/InterActiveCorp. In addition, we will attribute $4.01 billion principal amount (as of September 30, 2005) of our existing parent company debt to the Interactive Group. The Capital Group will consist of all of our business that is not part of the Interactive Group. In addition, we will attribute the portion of our existing parent company debt that is not attributed to the Interactive Group (which is $5.39 billion principal amount (as of September 30, 2005)) to the Capital Group.

An investment in Liberty Interactive common stock will not represent an ownership interest in the Interactive Group, and an investment in Liberty Capital common stock will not represent an ownership interest in the Capital Group. Rather, an investment in either of these tracking stocks will represent an ownership interest in our consolidated company.

The Reclassification

The reclassification will be effected upon the filing of the charter amendment with the Delaware Secretary of State. In the reclassification:

- each holder of our outstanding Series A common stock will receive (i) 0.25 of a share of Liberty Interactive Series A common stock and (ii) 0.05 of a share of Liberty Capital Series A common stock for each share of our outstanding Series A common stock held; and

- each holder of our outstanding Series B common stock will receive (i) 0.25 of a share of Liberty Interactive Series B common stock and (ii) 0.05 of a share of Liberty Capital Series B common stock for each share of our outstanding Series B common stock held.

Therefore, to receive one share of Liberty Interactive common stock in the reclassification, a stockholder must own 4 shares of the same series of our common stock immediately prior to the reclassification, and to receive one share of Liberty Capital common stock in the reclassification, that stockholder must surrender 20 shares of the same series of our common stock immediately prior to the reclassification.

If you otherwise would receive a fraction of a share of Liberty Interactive common stock or Liberty Capital common stock you will receive cash in an amount equal to the value of any fractional share interest. The cash amount deliverable in lieu of a fractional share interest will equal the product of the applicable fraction multiplied by the closing price of a share of Liberty Interactive Series A common stock, Liberty Capital Series A common stock, Liberty Interactive Series B common stock or Liberty Capital Series B common stock, as applicable, as reported on the first trading day on which shares of Liberty Interactive common stock and Liberty Capital common stock trade in the regular way market.

If the reclassification proposal is approved, we intend to file the charter amendment in Delaware and thereby complete the reclassification as soon as practicable after the special meeting and our receipt of an opinion from Baker Botts L.L.P. regarding certain tax matters, as more particularly described under the heading " Material U.S. Federal Income Tax Consequences" on page 82. However, our board of directors may decide not to file the charter amendment and thereby abandon the reclassification before or after the meeting without further action by our stockholders.

The Interactive Group and the Capital Group

The charter amendment, if adopted, will authorize and designate two tracking stocks: Liberty Interactive common stock, intended to reflect the separate economic performance of the Interactive Group, and the Liberty Capital common stock, intended to reflect the separate economic performance of the Capital Group. A description of the Liberty Interactive Common Stock and Liberty Capital Common Stock is provided below under the heading " Description of Liberty Interactive Common Stock and Liberty Capital Common Stock."

One of our principal reasons for creating the Interactive Group and the Capital Group is to assist the capital markets in better understanding and valuing our businesses. Although we have always sought to conduct our businesses in a manner which increases stockholder value, over the years our capital structure has become increasingly complex. We believe this complexity has caused confusion among investors, which we believe is a major reason why our stock has traded for some time at a discount to our estimate of our net asset value. Through the creation of the Interactive Group and the Capital Group, we are seeking to reduce that confusion.

The Interactive Group will focus on video and on-line commerce businesses and will be largely free of the financial complexity (such as derivative security positions) associated with many of our cost investments in companies which are no longer central to our business strategies and as to which we do not expect to increase our interest. (Those assets, which we refer to as non-strategic assets, will be attributed to the Capital Group.) The Interactive Group will be anchored by our consolidated subsidiary QVC, in which we have a 98% interest. By highlighting QVC, we anticipate that the market will value the Interactive Group based largely on QVC's performance, at least initially, and in line with other specialty and on-line retailers. Our strategy with the Interactive Group will be to continue QVC's organic growth in its existing markets while exploring opportunities for expansion in additional international markets. We will also seek to leverage the strength of QVC as a video and web-based retailer by acquiring complementary businesses. For example, we have announced an agreement to acquire Provide Commerce, Inc., which is an on-line retailer of perishable products such as cut flowers and meats. This on-line commerce retailer will be attributed to the Interactive Group.

The Interactive Group will also initially include our approximate 21% interest in IAC/InteractiveCorp. IAC complements the business of QVC in that it offers its products and services to customers through branded websites, video and telephone sales, as well as through membership programs.

We will attribute to the Interactive Group the following debt obligations:

Obligation	**Outstanding Principal at September 30, 2005**	
3.5% Senior Notes due 2006	$	199,074,000
Floating Rate Senior Notes due 2006	$	1,398,164,000
7.875% Senior Notes due 2009	$	715,600,000
7.75% Senior Notes due 2009	$	233,626,344
8.5% Senior Debentures due 2029	$	500,000,000
8.25% Senior Debentures due 2030	$	958,900,000

We attributed the foregoing debt obligations to the Interactive Group after consultation with our financial and legal advisors. The debt was attributed to Interactive Group based upon a number of factors, including the cash flow available to the Interactive Group and its ability to pay debt service and our assessment of the optimal capitalization for the Interactive Group. The specific debt obligations we have attributed to the Interactive Group include most of our senior notes and non-exchangeable debentures. As indicated below, all of our exchangeable debentures will be attributed to the Capital Group because the stock into which such debt is exchangeable has been attributed to the Capital Group.

A more complete description of the Interactive Group is provided under "Description of Business The Interactive Group," in Annex A to this proxy statement/prospectus.

The Capital Group will consist of all of our businesses not included in the Interactive Group. Initially, the more significant businesses, business affiliates and holdings attributed to the Capital Group will be the following:

Entity	**Ownership Interest as of September 30, 2005**
Starz Entertainment Group LLC	100%
On Command Corporation	100%
OpenTV Corp. (NASDAQ: OPTV)	31%(1)
Courtroom Television Network LLC	50%
GSN, LLC	50%
TruePosition, Inc.	89% (common equity) 100% (preferred stock)
Expedia, Inc.	20%
WildBlue Communications, Inc.	32%
Motorola, Inc. (NYSE: MOT)	3%
News Corporation (NYSE: NWS)	16%
Sprint Nextel Corporation (NYSE: S)	3%
Time Warner Inc. (NYSE: TWX)	4%
Viacom, Inc. (NYSE: VIAb)	Less than 1%
IDT Corporation (NYSE: IDT-C)	17%

(1) We have a 78% voting interest in OpenTV.

We have owned many of the businesses and assets being attributed to the Capital Group for many years, and in a number of cases they were acquired at a time when we were the programming arm of the cable operator Tele-Communications, Inc. The businesses attributed to the Capital Group are primarily engaged in the video programming, media and interactive technology services businesses.

Following TCI's acquisition by AT&T in 1999, several of our assets were no longer viewed as central to our business strategy. These assets, including our minority interests in Motorola, Inc., Sprint Nextel, Time Warner, Inc. and Viacom, Inc., were effectively monetized with derivatives and/or exchangeable debentures to raise liquidity for us and to pursue acquisitions. While these financial instruments have proven beneficial to us over the years, they have complicated our capital structure and created a good deal of investor confusion. All of our non-strategic assets and related derivatives, will be attributed to the Capital Group. Over time, we expect to convert many of our non-strategic assets into operating assets or into cash that we would use to pursue opportunities that are complementary to the assets of the Capital Group and that further its business strategy.

The Capital Group will focus primarily on video programming and communications technology and services involving cable, satellite, the internet and other distribution media as they evolve. We expect to grow the businesses attributed to the Capital Group by creating new opportunities for our existing businesses and by acquiring companies that leverage and complement those businesses. We also may explore other financial transactions and investments with attractive risk and return characteristics.

As an example of our investment strategy for this group, we recently announced that we have agreed to acquire a majority interest in FUN Technologies plc, which would be attributed to the Capital Group. FUN's business includes the development and hosting of online games and online fantasy sports platforms, which complements the content on GSN, Inc.'s game show network and website.

The following debt obligations will be attributed to the Capital Group:

Obligation	Outstanding Principal at September 30, 2005	
5.7% Senior Notes due 2013	$	802,500,000
4% Senior Exchangeable Debentures due 2029	$	868,782,000
3.75% Senior Exchangeable Debentures due 2030	$	809,999,000
3.5% Senior Exchangeable Debentures due 2031	$	600,000,000
3.25% Senior Exchangeable Debentures due 2031	$	559,333,000
0.75% Senior Exchangeable Debentures due 2023	$	1,750,000,000

The foregoing debt obligations constitute all of our notes and debentures that have not been attributed to the Interactive Group. We believe that the attribution of these specific notes and debentures to the Capital Group is appropriate based on the ability of the Capital Group to pay the debt service on those obligations and, in the case of the exchangeable debentures, because the shares of other publicly traded companies for which those debentures are exchangeable have been attributed to the Capital Group.

A more complete description of the Capital Group is provided under "Description of Business The Capital Group" in Annex A to this proxy statement/prospectus.

Each group will include in the future other businesses, assets and liabilities that are complementary or related to the businesses attributed to that group as our board of directors may determine. There are no present plans or proposals to attribute to either group any businesses, assets or liabilities which are indicated herein as initially being attributed to the other group. In addition, we may acquire and attribute to either group other businesses, assets and liabilities which are consistent with the focus or strategy of that group. In cases where a business may fit into either group, our board will have discretion to determine to which group that business should be attributed. We expect that in making such a decision, the board will consider not only whether the business is principally related to those in a particular group but also which group has the financing capability and managerial expertise to best capitalize on the opportunities presented by the acquisition. Our board may change the strategy of either group, in its sole discretion, at any time. We expect that the board will do so if it is determined that such a change would be in the best interests of our company and all of our stockholders.

Treatment of Stock Options and Other Awards

Options to purchase shares of our common stock, stock appreciation rights with respect to shares of our common stock and shares of our restricted stock have been granted to various directors, officers, employees and consultants of our company and certain of our subsidiaries pursuant to the Liberty Media Corporation 2000 Incentive Plan (As Amended and Restated Effective April 19, 2004) and various other stock incentive plans administered by the incentive plan committee of our board of directors. Under the anti-dilution provisions of the applicable plans, our incentive plan committee has the authority to make equitable adjustments to outstanding Liberty options, Liberty SARs and shares of Liberty restricted stock in the event of certain transactions, including the distribution of the Liberty Interactive common stock and the Liberty Capital common stock. If the reclassification is completed, we anticipate that the following adjustments will be made to the outstanding awards:

Option Awards

If the reclassification is completed, each outstanding option to purchase shares of our common stock (which we refer to as an outstanding Liberty option) will be divided into two options as follows:

- an option (which we refer to as an Interactive Group option) to purchase shares of the same series of Liberty Interactive common stock as the series of Liberty common stock for which the outstanding Liberty option is exercisable, exercisable for the number of shares of such series of Liberty Interactive common stock that would have been issued in the reclassification in respect of the shares of Liberty common stock subject to the applicable outstanding Liberty option, if such outstanding Liberty option had been exercised in full immediately prior to the reclassification; and

- an option (which we refer to as a Capital Group option) to purchase shares of the same series of Liberty Capital common stock as the series of Liberty common stock for which the outstanding Liberty option is exercisable, exercisable for the number of shares of such series of Liberty Capital common stock that would have been issued in the reclassification in respect of the shares of Liberty common stock subject to the applicable outstanding Liberty option, as if such outstanding Liberty option had been exercised in full immediately prior to the reclassification.

The aggregate exercise price of each outstanding Liberty option will be allocated between the Interactive Group option and the Capital Group option, *pro rata*, based upon the ratio of the volume weighted average price of the tracking stock for which the option is exercisable over the first 20 trading days of regular way trading after the completion of the reclassification to the volume weighted average prices of the tracking stocks of both groups over the same 20 trading day period. This ratio is intended to result in an allocation which will reflect the relative fair market values of each group's stock immediately following the reclassification.

By way of example, a Liberty option to acquire 1,000 shares of our Series A common stock at an exercise price of $10 would be divided, as a result of the reclassification, into:

- an Interactive Group option to acquire 250 shares of Liberty Interactive Series A common stock at an exercise price of $28.57; and

- a Capital Group option to acquire 50 shares of Liberty Capital Series A common stock at an exercise price of $57.14.

The foregoing exercise price allocation assumes that the volume weighted average price of the Liberty Interactive common stock over the first 20 trading days of regular way trading was $25, and the volume weighted average price of the Liberty Capital common stock over such 20-trading day period was $50.

Except as described above, all other terms of the Interactive Group option and the Capital Group option (including, for example, the vesting terms thereof) will, in all material respects, be the same as those of the corresponding outstanding Liberty option.

SAR Awards

If the reclassification is completed, each outstanding stock appreciation right related to Liberty common stock (which we refer to as an outstanding Liberty SAR) will be divided into two stock appreciation rights related to our common stock as follows:

- a stock appreciation right (which we refer to as an Interactive Group SAR) related to shares of the same series of Liberty Interactive common stock as the series of Liberty common stock to which the outstanding Liberty SAR relates, relating to the number of shares of such series of Liberty Interactive common stock that would have been issued in connection with the reclassification in respect of the shares of Liberty common stock to which the outstanding Liberty SAR relates, as if such number of shares to which the outstanding Liberty SAR relates had been outstanding and converted into shares of Liberty Interactive common stock in the reclassification; and

- a stock appreciation right (which we refer to as a Capital Group SAR) related to shares of the same series of Liberty Capital common stock as the series of Liberty common stock to which the outstanding Liberty SAR relates, relating to the number of shares of such series of Liberty Capital common stock that would have been issued in the reclassification in respect of the shares of Liberty common stock to which the outstanding Liberty SAR relates, as if such number of shares to which the outstanding Liberty SAR relates had been outstanding and converted into shares of Liberty Capital common stock in the reclassification.

The base price of each outstanding Liberty SAR will be allocated between the Interactive Group SAR and the Capital Group SAR, pro rata, based upon the ratio of the volume weighted average price of the tracking stock to which the SAR relates over the first 20 trading days of regular way trading after the consummation of the reclassification to the volume weighted average prices of the tracking stocks of both groups over the same 20 trading day period. This ratio is intended to result in an allocation which will reflect the relative fair market values of each group's stock immediately following the reclassification.

By way of example, an outstanding Liberty SAR relating to 1,000 shares of our Series A common stock with a base price of $10 would be divided, as a result of the reclassification, into:

- an Interactive Group SAR relating to 250 shares of Liberty Interactive Series A common stock with a base price of $28.57; and

- a Capital Group SAR relating to 50 shares of Liberty Capital Series A common stock with a base price of $57.14.

The foregoing base price allocation assumes that the volume weighted average price of the Liberty Interactive common stock over the first 20 trading days of regular way trading was $25, and the volume weighted average price of the Liberty Capital common stock over such 20-trading day period was $50.

Except as described above, all other terms of the Interactive Group SAR and the Capital Group SAR (including, for example, the vesting terms thereof) will, in all material respects, be the same as those of the corresponding outstanding Liberty SAR.

Restricted Stock Awards

If the reclassification is completed, each holder of an outstanding Liberty restricted stock award will be entitled to receive, for each share of restricted Liberty common stock held, (i) an award of 0.25 of a share of the same series of Liberty Interactive common stock as the shares of Liberty common stock to which such Liberty restricted stock award relates and (ii) an award of 0.05 of a share of the same series of Liberty Capital common stock as the shares of Liberty common stock to which such Liberty restricted stock award relates (with cash in lieu of any fractional share interests). Except as described above, all of the Interactive Group restricted stock awards and the Capital Group restricted stock awards (including, for example, the vesting terms thereof) will, in all material respects, be the same as those of the corresponding Liberty restricted stock award.

We intend to file a Form S-8 registration statement with respect to shares of Liberty Interactive and Liberty Capital common stock issuable upon exercise of options to purchase shares of Liberty Interactive common stock or Liberty Capital common stock, or upon exercise of stock appreciation rights relating to shares of Liberty Interactive common stock or Liberty Capital common stock, or vesting of awards of Liberty Interactive restricted stock and Liberty Capital restricted stock, as soon as practicable following the reclassification.

Recommendation of our Board of Directors

Our board of directors has carefully considered and approved the reclassification proposal and recommends that you vote "**FOR**" the reclassification proposal.

Background and Reasons for the Reclassification Proposal

We continually review each of our businesses and our company as a whole as we seek to execute our business strategies and increase shareholder value. As a result of this review process, we concluded that the implementation of a "tracking stock" structure would provide us with greater operational and financial flexibility in executing our business strategies and would permit the markets to make a more informed valuation of our various businesses. In reaching this conclusion, the board determined that the creation of the Interactive Group and Capital Group would permit us to bring greater clarity to our assets and our business strategies for those assets, as well as allow us to create two acquisition currencies which we believe will be preferable to sellers of companies because they will have the opportunity to participate in any gains enjoyed by the acquired company after the acquisition. We also anticipate that the stock of each group will trade more in line with the fundamentals of the businesses attributed to that group.

Our board of directors also considered a spin off of the businesses to be attributed to the Interactive Group, but determined that a tracking stock structure, unlike a spin off, is expected to preserve certain favorable financial, tax and other benefits that we will continue to realize as a single consolidated entity.

Upon management's recommendation and after extensive consultation with our financial and legal advisors, our board of directors determined that the reclassification would be in the best interests of our company and our stockholders.

Positive Aspects of the Reclassification Proposal

In arriving at its determination and recommendation, our board of directors, with the assistance of its financial and legal advisors, considered, among other things, the following:

Increased stockholder choice. The adoption of a tracking stock capitalization will allow our stockholders and future investors to own either or both of the Liberty Interactive common stock and the Liberty Capital common stock, depending on their particular investment objectives.

Greater financial flexibility. The creation of the Liberty Interactive common stock and the Liberty Capital common stock will provide greater flexibility to raise capital and respond to strategic opportunities (including acquisitions) because it will allow us to issue either Liberty Interactive common stock or Liberty Capital common stock as appropriate under the circumstances. For example, it would allow stockholders of an entity that is acquired for the Interactive Group the opportunity to participate more directly in the success of the business in which that entity engages rather than participating in our much larger and more diversified businesses as is the case with our current capitalization.

Advantages of doing business under common ownership. In contrast to a spin off, the reclassification proposal will retain for us the advantages of doing business as a single company and allow the businesses attributed to each group to capitalize on relationships with the businesses attributed to the other group. As part of a single company, the businesses within each group will continue to take advantage of the strategic, financial and other benefits of shared managerial expertise, synergies relating to technology and purchasing arrangements, consolidated tax benefits, lower borrowing costs in some instances and cost savings in corporate overhead and other expenses.

Management incentives. The creation of the Liberty Interactive common stock and the Liberty Capital common stock will permit the creation of more effective management incentive and retention programs. In particular, it will allow us to issue stock-based compensation and other incentive awards to employees of the businesses within each group that are tied more directly to the performance of their group and indirectly to the performance of the company.

Preserves capital structure flexibility. The terms of the charter amendment preserve the ability of our board of directors to unwind our tracking stock capitalization, subject to certain restrictions on timing.

Implementation of the reclassification will not be taxable. We expect that the implementation of the reclassification will not be taxable for U.S. federal income tax purposes to us or to our stockholders (except with respect to cash received in lieu of fractional shares).

Anticipated greater market recognition and more accurate valuation. The creation of the Liberty Interactive common stock and the Liberty Capital common stock is intended to permit the market to review separate information about the businesses, assets and liabilities attributed to the Interactive Group and the Capital Group, and hence separately value the Liberty Interactive common stock and the Liberty Capital common stock. This should encourage investors and analysts to focus on the businesses, assets and liabilities attributed to each of the Interactive Group and the Capital Group which, to date, have been relatively hidden within our current corporate structure. In addition, having separate common stocks relating to the Interactive Group and the Capital Group should allow equity investors to apply different and more specific criteria in selecting in which of our securities to invest.

Potential Negative Aspects of the Reclassification Proposal

Our board of directors also evaluated the potential negative aspects of the reclassification proposal, including the following:

Uncertainty of market valuation. There can be no assurance as to the degree to which the market price of the Liberty Interactive common stock and the Liberty Capital common stock will reflect the separate performances of those groups. In addition, we cannot predict the impact of the reclassification proposal on the market price of our existing common stock prior to the special meeting or whether the issuance of the Liberty Interactive common stock and the Liberty Capital common stock will increase our aggregate market capitalization.

Expansion of the board of directors' responsibilities. The charter amendment may expand our board of directors' responsibilities due to the need for the board to review any matter involving the allocation of a business or corporate opportunity to the Interactive Group or the Capital Group, a potential conflict of interest between the holders of the Liberty Interactive common stock and the Liberty Capital common stock, or the movement of assets and creation of inter-group interests between the groups.

Creation of potential diverging or conflicting interests. The charter amendment may create potential diverging or conflicting interests between the holders of Liberty Interactive common stock and the holders of Liberty Capital common stock, and complex issues may arise in resolving such conflicts that effectively require our board of directors to benefit one group more than the other group.

Uncertainty of market reaction to tracking stock decisions. The market values of Liberty Interactive common stock and Liberty Capital common stock could be affected by the market reaction to decisions by our board of directors and management that investors perceive as affecting differently one series of common stock compared to the other. These decisions could include decisions regarding business transactions between the groups or the allocation of assets, expenses, debt or other financial liabilities between the groups.

Complex capital structure. The recapitalization which would be effected if the reclassification proposal is approved will result in a complex capital structure due to the intricate terms of the the charter amendment. For instance, the charter amendment provides that:

- we may redeem, in one or more transactions, stock relating to a particular group in exchange for stock of one or more subsidiaries holding assets attributed to that group, provided that our board of directors has determined that such redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) for U.S. federal income tax purposes to holders of the stock of that group; and

- following the sale of all or substantially all of the assets attributed to a group, we must take certain specified actions, including declaring a dividend on or redeeming the stock relating to that group or converting the stock relating to that group into stock relating to the other group, in each case, unless the sale qualifies for one of the exemptions listed in the charter amendment.

Our existing charter does not include any optional or mandatory redemption provisions nor does it include any mandatory dividend or conversion provisions. For a discussion of additional differences between these charters, please see " Comparison of Liberty Common Stock with Liberty Interactive Common Stock and Liberty Capital Common Stock" below. The provisions of the charter amendment, as well as the manner in which we will present in our reports the assets, liabilities and cash flows of Liberty and each of the groups, could cause confusion among some investors.

Potential adverse tax consequences. The tax treatment of the reclassification is subject to some uncertainty, and the board considered the possibility that the IRS could successfully assert that the receipt of the Liberty Interactive common stock or the Liberty Capital common stock or both in the reclassification, as well as any subsequent conversion of Liberty Interactive common stock into Liberty Capital common stock, is taxable to you and/or to us. The board considered the fact that if the IRS were successful in such a claim, material adverse tax consequences could result to you and us.

Our board of directors determined that the positive aspects of the reclassification proposal outweighed the negative aspects and concluded that the reclassification proposal is in the best interests of Liberty Media Corporation and its stockholders. In light of the number and variety of factors that our board of directors considered, our board of directors believes it is not practicable to assign relative weights to the factors discussed above, and accordingly, our board of directors did not do so.

Management and Allocation Policies

One of the fundamental objectives of the reclassification proposal is to attribute all of our businesses and operations to either of the Interactive Group or the Capital Group and present separate consolidating financial information for each group. In order to accomplish this objective in a fair and equitable manner in the future, we have established management and allocation policies to help us allocate certain items (such as debt, corporate overhead, taxes, corporate opportunities and other charges and obligations) between the Interactive Group and the Capital Group in a reasonable manner after taking into account all material factors.

As a general principle, we expect that all material matters in which holders of Liberty Interactive common stock and Liberty Capital common stock may have divergent interests will be generally resolved in a manner that is in our best interests and the best interests of all of our stockholders after giving fair consideration to the interests of the holders of each tracking stock, as well as such other or different factors considered relevant by the board (or any committee of the board authorized for this purpose, which will include the executive committee of the board).

Policies Subject to Change Without Stockholder Approval

We have set forth below the management and allocation policies as we expect them to be effective upon completion of the reclassification. We are not requesting stockholder approval of these policies.

Our board of directors may, without stockholder approval, modify, change, rescind or create exceptions to these policies, or adopt additional policies. Such actions could have different effects upon holders of Liberty Interactive common stock and Liberty Capital common stock. Our board of directors would make any such decision in accordance with its good faith business judgment that such decision is in our best interests and the best interests of all of our stockholders as a whole. Any such modifications, changes, exceptions or additional policies will be binding and conclusive unless otherwise determined by the board.

Attribution of Assets

In establishing the Interactive Group, our board has attributed to it our interests in QVC and IAC, and related assets and liabilities. The Interactive Group will be primarily focused on video and on-line commerce. All other businesses, assets and liabilities have been attributed to the Capital Group, which will be primarily focused on video programming, and communications technology and services involving cable, satellite, the internet and evolving distribution media. The board currently contemplates that businesses, assets and liabilities acquired after the reclassification would be attributed to one of the two groups principally based upon how strongly they complement or relate to the focus or strategy of that group.

Fiduciary and Management Responsibilities

Because the Interactive Group and the Capital Group will continue to be a part of a single company, our directors and officers will have the same fiduciary duties to holders of Liberty Interactive common stock and Liberty Capital common stock that they currently have to the holders of our existing common stock. Under Delaware law, absent an abuse of discretion, a director or officer will be deemed to have satisfied his or her fiduciary duties to us and our stockholders if that person is disinterested and acts in accordance with his or her good faith business judgment in our interests and the interests of all of our stockholders as a whole. Our board of directors and chief executive officer, in establishing and applying policies with regard to intra-company matters such as business transactions between the Interactive Group and the Capital Group and allocation of assets, liabilities, debt, corporate overhead, taxes, interest, corporate opportunities and other matters, will consider various factors and information which could benefit or cause relative detriment to the stockholders of the respective groups and will seek to make determinations which are in our best interests and the best interests of our stockholders as a whole. If and when there are conflicting interests between the Interactive Group and the Capital Group, our directors will use good faith business judgment to resolve such conflicts.

Dividend Policy

We have not paid cash dividends on our existing common stock and do not anticipate paying cash dividends on the Liberty Interactive common stock or the Liberty Capital common stock in the foreseeable future. For a description of the provisions of the charter amendment relating to the payment of dividends in respect of the Liberty Interactive common stock and the Liberty Capital common stock, see below under the heading " Description of Liberty Interactive Common Stock and Liberty Capital Common Stock Dividends."

Financing Activities

General. We will manage most of our financial activities on a centralized basis. These activities include the investment of surplus cash, the issuance and repayment of short-term and long-term debt and the issuance and repurchase of any preferred stock.

If we transfer cash or other property attributed to one group to the other group, we will account for such transfer as a short term loan unless the board of directors determines that a given transfer (or type of transfer) should be accounted for as a long-term loan, an inter-group interest or as a reduction of an inter-group interest. See " Inter-Group Loans" and " Inter-Group Interests" below.

Our board of directors will make these determinations, either in specific instances or by setting applicable policies generally, in the exercise of its informed business judgment. Factors our board of directors may consider in making this determination include:

- the financing needs and objectives of the receiving group;
- the investment objectives of the transferring group;
- the current and projected capital structure of each group;
- the relative levels of internally generated funds of each group; and
- the availability, cost and time associated with alternative financing sources, prevailing interest rates and general economic conditions.

Our board of directors will make all transfers of material assets from one group to the other on a fair value basis for the foregoing purposes, as determined by the board. For accounting purposes, all such assets will be deemed transferred at their carryover basis. To the extent that this amount is different than the fair value of the inter-group loan or inter-group interest created in the transaction, this difference will be recorded as an adjustment to the group equity. No gain or loss will be recognized in the statement of operations information for the groups due to the related party nature of such transactions.

Inter-Group Loans. If one group makes a loan to another group, our board of directors will determine the terms of the loan, including the rate at which it will bear interest. Our board of directors will determine the terms of any inter-group loans, either in specific instances or by setting applicable policies generally, in the exercise of its informed business judgment. Factors our board of directors may consider in making this determination include:

- our needs;
- the use of proceeds and creditworthiness of the recipient group,
- the capital expenditure plans of and the investment opportunities available to each group; and
- the availability, cost and time associated with alternative financing sources.

If an inter-group loan is made, we intend to account for the loan based on its stated terms, and the resulting activity, such as interest amounts, will be recorded in the separate group financial results to be included in our consolidated financial statements but will be eliminated in preparing our consolidated financial statement balances.

Inter-Group Interests. An inter-group interest is a quasi-equity interest that one group is deemed to hold in the other group. Inter-group interests are not represented by outstanding shares of common stock, rather they have an attributed value which is generally stated in terms of a number of shares of Liberty Interactive common stock issuable with respect to an inter-group interest in the Interactive Group and a number of shares of Liberty Capital common stock issuable with respect to an inter-group interest in the Capital Group.

An inter-group interest in a group will be created when cash or property is transferred from one group to the other group and the board of directors determines that the transfer will not be treated as an inter-group loan. Inter-group interests may also be created in the discretion of the board of directors for certain other transactions, such as when funds of one group are used to effect an acquisition made on behalf of the other group. Additionally, inter-group interests once created are subject to adjustment for subsequent events. For instance, if the Interactive Group holds an inter-group interest in the Capital Group at the time of a transfer by the Capital Group to the Interactive Group, the board of directors may choose to reduce the Interactive Group's inter-group interest in the Capital Group rather than create an inter-group interest in the Interactive Group in favor of the Capital Group. Certain extraordinary actions that may be taken under our amended charter may also cause an increase or decrease in one group's inter-group interest in the other group. For more information regarding inter-group interests, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock."

If an inter-group interest is created, we intend to account for this interest in a manner similar to the equity method of accounting whereby the group holding the inter-group interest would record its proportionate share of the other group's net income or loss. Appropriate eliminating entries would be made in preparing our consolidated financial statement balances.

Equity Issuance and Repurchases and Dividends. We will reflect all financial effects of issuances and repurchases of shares relating to either group in our own consolidated financial statements. We will reflect financial effects of dividends or other distributions on, and purchases of, shares relating to either group in our own consolidated financial statements.

Inter-Group Contracts

The terms of all current and future material transactions, relationships and other matters between the groups, including those as to which the groups may have potentially divergent interests, will be determined in a manner considered by our board of directors to be in our best interests and the best interests of our stockholders as a whole.

Review of Corporate Opportunities

Our board of directors will review any matter which involves the allocation of a corporate opportunity to either the Interactive Group or the Capital Group or in part to the Interactive Group and in part to the Capital Group. In accordance with Delaware law, our board of directors will make its determination with regard to the allocation of any such opportunity and the benefit of such opportunity in accordance with their good faith business judgment of our best interests and the best interests of our stockholders as a whole. Among the factors that our board of directors may consider in making this allocation is:

- whether a particular corporate opportunity is principally related or complementary to the business focus or strategy of the Interactive Group or the Capital Group;

- whether one group, because of operational expertise, will be better positioned to undertake the corporate opportunity; and

- existing contractual agreements and restrictions.

Financial Statements; Allocation Matters

We will present consolidated financial statements in accordance with generally accepted accounting principles in the U.S., consistently applied. Our consolidated financial statements will include consolidating financial statement information that will show the attribution of our assets, liabilities, revenue, expenses and cash flows to each of the Interactive Group and the Capital Group.

Consolidating financial statement information will also include attributed portions of our debt, interest, corporate overhead and costs of administrative shared services and taxes. We will make these allocations for the purpose of preparing such information; however, holders of Liberty Interactive common stock and Liberty Capital common stock will continue to be subject to all of the risks associated with an investment in us and all of our businesses, assets and liabilities.

In addition to allocating debt and interest as described above, we have adopted certain expense allocation policies, each of which is reflected in the attributed financial information of the Interactive Group and the Capital Group. In general, corporate overhead will be allocated to each group based upon the use of services by that group where practicable. Corporate overhead includes costs of personnel and employee benefits, legal, accounting and auditing, insurance, investor relations and stockholder services and services related to our board of directors. We will allocate in a similar manner a portion of costs of administrative shared services, such as information technology services. Where determinations based on use alone are not practical, we will use other methods and criteria that we believe are equitable and that provide a reasonable estimate of the cost attributable to each group.

Taxes

From and after the effective date of the reclassification, taxes and tax benefits will be shared between the Capital Group and the Interactive Group in accordance with the following tax sharing policies regardless of whether or not the applicable taxes or tax benefits relate to a taxable period (or portion thereof) ending prior to the effective date of the reclassification (a "**Pre-Issue Date Period**"). These tax sharing policies may differ from the manner in which taxes and tax benefits of each group are reflected in the financial statements. For financial statement purposes, taxes and tax benefits allocable to each group generally have been, and will be, accounted for in a manner similar to a stand-alone company basis in accordance with generally accepted accounting principles. Any differences between the tax sharing policies described below and the taxes and tax benefits of each group reported in the financial statements will be reflected in the attributed net assets of the groups for financial statement purposes.

To the extent that federal, state, local or foreign income taxes are determined on a basis that includes the operations, assets, liabilities or other tax items of both the Capital Group and the Interactive Group, income taxes and income tax benefits will be shared between the groups based principally on the taxable income (or loss), tax credits and other tax items directly related to the activities of such group for taxable periods (or portions thereof) beginning on or after the effective date of the reclassification (a "**Post-Issue Date Period**"). Such allocations will reflect each group's contribution, whether positive or negative, to our consolidated taxable income (or loss), income tax liabilities and tax credit position. Income tax benefits that cannot be used by a group generating such benefits, but can be used to reduce the taxable income of the other group, will be credited to the group that generated such benefits. As a result, under this tax sharing policy, the amount of income taxes allocated to a group or the amount credited to a group for income tax benefits, may not necessarily be the same as that which would have been payable or received by the group had that group filed separate income tax returns.

To the extent that federal, state, local or foreign income taxes are determined on a basis that includes the operations, assets, liabilities or other tax items of both the Capital Group and the Interactive Group in any Pre-Issue Date Period, income taxes and income tax benefits that are attributable to QVC and its subsidiaries will be the responsibility of, or for the benefit of, the Interactive Group, and except as described below, all other income taxes and all other income tax benefits (including benefits received by carrying forward a tax item to a Post-Issue Date Period) arising from the tax items of each group that are attributable to any Pre-Issue Date Period will be the responsibility of, or for the benefit of, the Capital Group. However, any income tax benefit arising from tax credits or losses generated by the Interactive Group that are carried back from any Post-Issue Date Period to any Pre-Issue Date Period will be for the benefit of the Interactive Group, and any tax obligations or tax benefits of any entity acquired for the Interactive Group, which relate to any Pre-Issue Date Period, will be allocated to the Interactive Group.

If any non-income taxes are determined on a basis that includes the operations, assets, liabilities or other tax items of both the Capital Group and the Interactive Group in any taxable period, then each group will be responsible for non-income taxes, and will be entitled to any non-income tax benefits, based upon their contribution to the consolidated non-income tax liability (or benefit). Any income or non-income taxes or tax benefits that are determined on a basis that includes only the operations, assets, liabilities or other tax items of one group will be for the account of that group.

In general, for purposes of these tax sharing policies, any tax item (including any tax item arising from a disposition) attributable to an asset, liability or other interest tracked by the Liberty Interactive common stock will be allocated to the Interactive Group, and any tax item (including any tax item arising from a disposition) attributable to an asset, liability or other interest tracked by the Liberty Capital common stock will be allocated to the Capital Group. Tax items arising from employee or director compensation or employee benefits will be allocated to the group responsible for the underlying obligation (either through the allocation of the related expenses or through the issuance of stock of that group).

As described further in this proxy statement/prospectus under the heading "Risk Factors If either the Liberty Interactive common stock or the Liberty Capital common stock or both, were not treated as stock of our company for tax purposes, several adverse tax consequences would result to you and to us," no ruling has been obtained from the IRS with respect to the reclassification, and it is possible that the IRS could assert that the Liberty Interactive common stock, the Liberty Capital common stock, or both are not stock of our company for tax purposes. Although we think it is unlikely that the IRS would prevail on that view, if the IRS were successful in such a challenge, we and our subsidiaries would recognize a significant taxable gain as a result of the reclassification, and members of the Interactive Group and the Capital Group may not be able to file, where otherwise permitted, consolidated, combined or unitary tax returns as members of the same affiliated group. The Capital Group will be responsible for any taxes or tax items resulting from the treatment of the Liberty Interactive common stock, the Liberty Capital common stock, or both as other than stock of Liberty, or the actual or deemed disposition of either group or any entity included in either group caused by the issuance of the Liberty Interactive common stock or the Liberty Capital common stock.

Notwithstanding these tax sharing policies, under U.S. treasury regulations, each member of a consolidated group is severally liable for the U.S. federal income tax liability of each other member of the consolidated group. **Accordingly, each member of the Liberty affiliated group for U.S. federal income tax purposes (whether or not such member is part of the Capital Group or the Interactive Group) could be liable to the U.S. government for any U.S. federal income tax liability incurred, but not discharged, by any other member of the Liberty affiliated group.**

Comparison of Liberty Common Stock with Liberty Interactive Common Stock and Liberty Capital Common Stock

The following summary comparison should be read together with the description of our amended charter included under the heading " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock" below.

Liberty Common Stock	Liberty Capital Common Stock	Liberty Interactive Common Stock
	Basic Investment	
Our existing common stock reflects the performance of all of our businesses.	We intend the Liberty Capital common stock to reflect the separate economic performance of the assets to be included in the Capital Group. The Capital Group will initially include all of our businesses, assets and liabilities that are not attributed to the Interactive Group, specifically our subsidiaries Starz Entertainment Group LLC, On Command Corporation, OpenTV Corp. and TruePosition, Inc. and our equity affiliates Courtroom Television Network LLC, GSN, LLC, Expedia, Inc., and WildBlue Communications, Inc. and our interests in Motorola, Inc., News Corporation, Sprint Nextel Corporation, Time Warner, Inc., Viacom, Inc., and IDT Corporation and thereafter will include such other of our assets and businesses that our board of directors may in the future determine to attribute to the Capital Group or may be acquired in the future for the Capital Group. In addition, we will attribute the portion of our existing parent company debt that is not attributed to the Interactive Group (which is \$5.39 billion principal amount, as of September 30, 2005) to the Capital Group. We cannot assure you that the market value of the Liberty Capital common stock will reflect the performance of the Capital Group as we intend. Holders of Liberty Capital common stock will be holders of our common stock and, as such	We intend the Liberty Interactive common stock to reflect the separate economic performance of the assets to be included in the Interactive Group. The Interactive Group will initially include our subsidiary QVC, Inc., our interest in IAC/InterActiveCorp, and thereafter will include such other of our businesses, assets and liabilities that our board of directors may in the future determine to attribute to the Interactive Group or may be acquired in the future for the Interactive Group. In addition, we will attribute \$4.01 billion principal amount (as of September 30, 2005) of our existing parent company debt to the Interactive Group. We cannot assure you that the market value of the Liberty Interactive common stock will in fact reflect the performance of the Interactive Group as we intend. Holders of Liberty Interactive common stock will be holders of our common stock and, as such, will be subject to all risks associated with an investment in Liberty and all of its businesses, assets and liabilities. In addition, we could determine to pursue future business opportunities through one group instead of the other group, or jointly through both groups.

	will be subject to all risks associated with an investment in Liberty and all of its businesses, assets and liabilities. In addition, we could determine to pursue future business opportunities through one group instead of the other group, or jointly through both groups.	

Authorized Capital Stock

We are currently authorized to issue up to 4,450,000,000 shares of capital stock, consisting of 4,400,000,000 shares of common stock, of which 4,000,000,000 shares are designated as Series A common stock and 400,000,000 billion shares of our common stock are designated as Series B common stock, and 50,000,000 shares of preferred stock. Our preferred stock may be issued in one or more series as stated in a resolution adopted by our board of directors.	Under our amended charter, we will be authorized to issue up to 4,400,000,000 shares of capital stock, of which 400,000,000 will be designated Liberty Capital Series A common stock, 25,000,000 will be designated Liberty Capital Series B common stock, and 300,000,000 will be designated Liberty Capital Series C common stock.	Under our amended charter, we will be authorized to issue up to 4,400,000,000 shares of capital stock, of which 2,000,000,000 will be designated Liberty Interactive Series A common stock, 125,000,000 will be designated Liberty Interactive Series B common stock, and 1,500,000,000 will be designated Liberty Interactive Series C common stock.
	Under our amended charter, we will be authorized to issue 50,000,000 shares of preferred stock.	

Dividend and Securities Distributions

We have never paid cash dividends on our common stock and if the reclassification is not completed we do not expect to pay any dividends on common stock in the foreseeable future.	We do not expect to pay cash dividends on any series of Liberty Capital common stock in the foreseeable future because we expect to retain future earnings for use in the operation and expansion of our business.	We do not expect to pay cash dividends on any series of Liberty Interactive common stock in the foreseeable future because we expect to retain future earnings for use in the operation and expansion of our business.
We are permitted to pay dividends when and as declared by our board. Dividends will only be paid out of assets legally available to us for the payment of dividends. Whenever a dividend is paid to holders of our Series A common stock, the holders of our Series B common stock are entitled to receive an equal dividend per share and whenever a dividend is paid to the holders of our Series B common stock the holders of	We will be permitted to pay dividends on Liberty Capital common stock, out of the lesser of our assets legally available for the payment of dividends under Delaware law and the Capital Group Available Dividend Amount (as defined under " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Dividends Available Amounts"). If dividends are	We will be permitted to pay dividends on Liberty Interactive common stock, out of the lesser of our assets legally available for the payment of dividends under Delaware law and the Interactive Group Available Dividend Amount (as defined under " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Dividends

our Series A common stock are entitled to receive an equal dividend per share.

We are permitted to make share distributions of Series A common stock to holders of Series A common stock and Series B common stock on an equal per share basis; to make distributions of Series B common stock to holders of Series A common stock and Series B common stock on an equal per share basis; or to make distributions of Series A common stock to holders of Series A common stock and, on an equal per share basis, distributions of Series B common stock to holders of Series B common stock. We may also make a distribution of shares of any other class or series of our securities or the securities of any other person on an equal per share basis, to holders of Series A common stock and Series B common stock, subject to certain limitations.

paid on any series of Liberty Capital common stock, an equal per share dividend will be concurrently paid on the other series of Liberty Capital common stock.

If the Interactive Group has an inter-group interest in the Capital Group at the time a dividend is to be paid on Liberty Capital common stock, the Interactive Group will participate in the dividend. See " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Dividends Inter-Group Dividend Amounts" below.

We will also be permitted to make share distributions of Liberty Capital Series A, Series B or Series C common stock, respectively, to holders of all series of Liberty Capital common stock, on an equal per share basis (except that Liberty Capital Series B common stock may not be distributed to holders of Liberty Capital Series A common stock or Liberty Capital Series C common stock); share distributions of Liberty Capital Series A common stock to holders of Liberty Capital Series A common stock and, on an equal per share basis, shares of Liberty Capital Series B common stock to holders of Liberty Capital Series B common stock and, on an equal per share basis, shares of Liberty Capital Series C common stock to holders of Liberty Capital Series C common stock; share distributions of Liberty Interactive Series A, Series B or

Available Amounts"). If dividends are paid on any series of Liberty Interactive common stock, an equal per share dividend will be concurrently paid on the other series of Liberty Interactive common stock.

If the Capital Group has an inter-group interest in the Interactive Group at the time a dividend is to be paid on Liberty Interactive common stock, the Capital Group will participate in the dividend. See " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Dividends Inter-Group Dividend Amounts" below.

We will also be permitted to make share distributions of Liberty Interactive Series A, Series B or Series C common stock, respectively, to holders of all series of Liberty Interactive common stock, on an equal per share basis (except that Liberty Interactive Series B common stock may not be distributed to holders of Liberty Interactive Series A common stock or Liberty Interactive Series C common stock); share distributions of Liberty Interactive Series A common stock to holders of Liberty Interactive Series A common stock and, on an equal per share basis, shares of Liberty Interactive Series B common stock to holders of Liberty Interactive Series B common stock and, on an equal per share basis, shares of Liberty Interactive Series C common stock to holders of Liberty Interactive Series C common

	Series C common stock, respectively to holders of all series of Liberty Capital common stock, on an equal per share basis, subject to certain limitations (and except that Liberty Interactive Series B common stock may not be distributed to holders of Liberty Capital Series A common stock or Liberty Capital Series C common stock); share distributions of Liberty Interactive Series A common stock to holders of Liberty Capital Series A common stock and, on an equal per share basis, shares of Liberty Interactive Series B common stock to holders of Liberty Capital Series B common stock and, on an equal per share basis, shares of Liberty Interactive Series C common stock to holders of Liberty Capital Series C common stock, subject to certain limitations; and share distributions of any other class or series of our securities or the securities of any other person to holders of all series of Liberty Capital common stock, on an equal per share basis, subject to certain limitations.	stock; share distributions of Liberty Capital Series A, Series B or Series C common stock, respectively, to holders of all series of Liberty Interactive common stock, on an equal per share basis, subject to certain limitations (and except that Liberty Capital Series B common stock may not be distributed to holders of Liberty Interactive Series A common stock or Liberty Interactive Series C common stock); share distributions of Liberty Capital Series A common stock to holders of Liberty Interactive Series A common stock and, on an equal per share basis, shares of Liberty Capital Series B common stock to holders of Liberty Interactive Series B common stock and, on an equal per share basis, shares of Liberty Capital Series C common stock to holders of Liberty Interactive Series C common stock, subject to certain limitations; and share distributions of any other class or series of our securities or the securities of any other person to holders of all series of Liberty Interactive common stock, on an equal per share basis, subject to certain limitations.
	Conversion at Option of Holder	
Each share of our Series B common stock is convertible, at the option of the holder, into one share of Series A common stock. Shares of Series A common stock are not convertible into shares of Series B common stock.	Each share of Liberty Capital Series B common stock will be convertible, at the option of the holder, into one share of Liberty Capital Series A common stock. Shares of Liberty Capital Series A common stock and shares of Liberty Capital Series C common stock are not convertible.	Each share of Liberty Interactive Series B common stock will be convertible, at the option of the holder, into one share of Liberty Interactive Series A common stock. Shares of Liberty Interactive Series A common stock and shares of Liberty Interactive Series C common stock are not convertible.

Conversion at Option of Issuer

None.	None.	Following the first anniversary of the effective date of the reclassification (absent an earlier "tax event"), we will be able to convert each share of Liberty Interactive Series A, Series B and Series C common stock into a number of shares of the corresponding series of Liberty Capital common stock at a ratio based on the relative trading prices of the Liberty Interactive Series A common stock (or another series of Liberty Interactive common stock subject to certain limitations) and the Liberty Capital Series A common stock (or another series of Liberty Capital common stock subject to certain limitations) over a specified 60-trading day period. For a description of the "tax event" referred to above, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Conversion and Exchange Conversion of Liberty Interactive Common Stock at Liberty's Option."

Optional Redemption for Stock of a Subsidiary

None.	If at any time a "Qualifying Subsidiary" holds assets and liabilities attributed to the Capital Group and no other assets or liabilities, we may redeem outstanding shares of Liberty Capital common stock for shares of common stock of such Qualifying Subsidiary owned by us provided that our board of directors has determined that such redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) under Section 355 of the Internal Revenue Code to holders of Liberty Capital common stock. For the definition of "Qualifying Subsidiary" and additional information regarding such redemptions, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Optional Redemption for Stock of a Subsidiary Redemption of Liberty Capital Common Stock."	If at any time a Qualifying Subsidiary holds assets and liabilities attributed to the Interactive Group and no other assets or liabilities, we may redeem outstanding shares of Liberty Interactive common stock for shares of common stock of such Qualifying Subsidiary owned by us provided that our board of directors has determined that such redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) under Section 355 of the Internal Revenue Code to holders of Liberty Interactive common stock. For additional information regarding such redemptions, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Optional Redemption for Stock of a Subsidiary Redemption of Liberty Interactive Common Stock."

Mandatory Dividend, Redemption and Conversion Rights on Disposition of Assets

None.	If we dispose, in one transaction or a series of transactions, of all or substantially all of the assets of the Capital Group, we are required to choose one of the following four alternatives, unless the board obtains approval of the holders of Liberty Capital common stock to not take such action or the disposition qualifies for one of the other specified exemptions (in which case we will not be required to take any of the following actions): pay a dividend to holders of Liberty Capital common stock out of the available net proceeds of such disposition; if there are legally sufficient assets and the Capital Group Available Dividend Amount would have been sufficient to pay a dividend, then: (i) if the disposition involves all of the properties and assets of the Capital Group, redeem all outstanding shares of Liberty Capital common stock in exchange for cash and/or securities or other assets with a fair value equal to the available net proceeds of such disposition, or (ii) if the disposition involves substantially all (but not all) of the properties and assets of the Capital Group, redeem outstanding shares of Liberty Capital common stock in exchange for cash and/or securities or other property with a fair value	If we dispose, in one transaction or a series of transactions, of all or substantially all of the assets of the Interactive Group, we are required to choose one of the following four alternatives, unless the board obtains approval of the holders of Liberty Interactive common stock to not take such action or the disposition qualifies for one of the other specified exemptions (in which case we will not be required to take any of the following actions): pay a dividend to holders of Liberty Interactive common stock out of the available net proceeds of such disposition; if there are legally sufficient assets and the Interactive Group Available Dividend Amount would have been sufficient to pay a dividend, then: (i) if the disposition involves all of the properties and assets of the Interactive Group, redeem all outstanding shares of Liberty Interactive common stock in exchange for cash and/or securities or other assets with a fair value equal to the available net proceeds of such disposition, or (ii) if the disposition involves substantially all (but not all) of the properties and assets of the Interactive Group, redeem outstanding shares of Liberty Interactive common stock in exchange for cash and/or securities or other property with a fair

equal to the available net proceeds of such disposition; or	value equal to the available net proceeds of such disposition; or
convert each outstanding share of each series of Liberty Capital common stock into a number of shares of the corresponding series of Liberty Interactive common stock at a specified premium; or	convert each outstanding share of each series of Liberty Interactive common stock into a number of shares of the corresponding series of Liberty Capital common stock at a specified premium; or
combine a conversion of a portion of the outstanding shares of Liberty Capital common stock with the payment of a dividend on or redemption of shares of Liberty Capital common stock, as described above and subject to certain limitations.	combine a conversion of a portion of the outstanding shares of Liberty Interactive common stock with the payment of a dividend on or redemption of shares of Liberty Interactive common stock, as described above and subject to certain limitations.
For more information regarding such dispositions, including the criteria for exemption from the mandatory dividend, redemption or conversion provisions described above, see "Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group Capital Group Dispositions."	For more information regarding such dispositions, including the criteria for exemption from the mandatory dividend, redemption or conversion provisions described above, see "Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group Interactive Group Dispositions."

Voting Rights

Holders of our existing Series A common stock are entitled to one vote for each share of such stock held and holders of our existing Series B common stock are entitled to ten votes for each share of such stock held on all matters submitted to a vote of our stockholders at any annual or special meeting. Holders of our Series A common stock and Series B common stock vote as a class, except to the extent separate series votes are required by Delaware law or our existing charter.	Holders of Liberty Capital Series A common stock will be entitled to one vote for each share of such stock held and holders of Liberty Capital Series B common stock will be entitled to ten votes for each share of such stock held on all matters submitted to a vote of our stockholders. Holders of Liberty Capital Series C common stock will not be entitled to any voting powers except as otherwise required by Delaware law. When so required, holders of Liberty Capital Series C common stock will be entitled to 1/100th of a vote for each share of such stock held.	Holders of Liberty Interactive Series A common stock will be entitled to one vote for each share of such stock held and holders of Liberty Interactive Series B common stock will be entitled to ten votes for each share of such stock held on all matters submitted to a vote of our stockholders. Holders of Liberty Interactive Series C common stock will not be entitled to any voting powers except as otherwise required by Delaware law. When so required, holders of Liberty Interactive Series C common stock will be entitled to 1/100th of a vote for each share of such stock held.
	Holders of Liberty Capital common stock will vote as one class with holders of Liberty Interactive common stock on all matters that are submitted to a vote of our stockholders unless a separate class vote is required by our amended charter or Delaware law. In connection with certain dispositions of Capital Group assets, the board of directors may determine to seek approval of the holders of Liberty Capital Series A and Series B common stock, voting together as a separate class, to avoid effecting a mandatory dividend, redemption or conversion under our amended charter. For more information regarding the voting rights of the Capital Group, see " Description of Liberty Interactive Common Stock and Liberty Capital Common Stock Voting Rights."	Holders of Liberty Interactive common stock will vote as one class with holders of Liberty Capital common stock on all matters that are submitted to a vote of our stockholders unless a separate class vote is required by our amended charter or Delaware law. In connection with certain dispositions of Interactive Group assets, the board of directors may determine to seek approval of the holders of Liberty Interactive Series A and Series B common stock, voting together as a separate class, to avoid effecting a mandatory dividend, redemption or conversion under our amended charter. For more information regarding the voting rights of the Interactive Group, see " Description of Liberty Interactive Common Stock and Liberty Capital Common Stock Voting Rights."

	Inter-Group Interest	
None.	Initially, the Capital Group will have no inter-group interest in the Interactive Group. From time to time, the board of directors may determine to create an inter-group interest in the Interactive Group in favor of the Capital Group, subject to the terms of the our amended charter.	Initially, the Interactive Group will have no inter-group interest in the Capital Group. From time to time, the board of directors may determine to create an inter-group interest in the Capital Group in favor of the Interactive Group, subject to the terms of the our amended charter.
	Liquidation	
Upon our liquidation, dissolution or winding up, holders of our existing common stock are entitled to receive our net assets, if any, remaining for distribution to holders of our common stock (after payment or provision for all of our liabilities and payment of the preferential amounts to which any series of preferred stock is entitled) on a per share basis.	Upon our liquidation, dissolution or winding up, holders of shares of Liberty Capital common stock and the holders of shares of Liberty Interactive common stock will be entitled to receive in respect of shares of Liberty Capital common stock and Liberty Interactive common stock their proportionate interests in our assets, if any, remaining for distribution to holders of our common stock (regardless of the group to which such assets are then attributed) in proportion to their respective number of liquidation units per share of Liberty Capital common stock and Liberty Interactive common stock.	
	Each share of Liberty Capital common stock will have one liquidation unit, subject to adjustment.	Each share of Liberty Interactive common stock will have a number of liquidation units (including a fraction of one liquidation unit) equal to the quotient of the volume weighted average price of one share of Liberty Interactive Series A common stock over the first 20 trading days on which the Liberty Interactive Series A common stock trades in the regular way market, divided by the volume weighted average price of one share of Liberty Capital Series A common stock over the first 20 trading days on which the Liberty Capital Series A common stock trades in the regular way market, subject to adjustment.
	For additional information regarding liquidation units, including events requiring an adjustment thereto, see " Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock Liquidation and Dissolution."	

Stock Exchange Listings

Our existing Series A common stock and Series B common stock is listed on the NYSE under the symbols "L" and "LMC.B" respectively.	We have applied to list Liberty Capital Series A common stock and Series B common stock on the Nasdaq National Market under the symbols "LCAPA" and "LCAPB," respectively.	We have applied to list Liberty Interactive Series A common stock and Series B common stock on the Nasdaq National Market under the symbols "LINTA" and "LINTB," respectively.

Description of the Liberty Interactive Common Stock and the Liberty Capital Common Stock

The following is a summary of the Liberty Interactive common stock and the Liberty Capital common stock and reflects the terms of our amended charter. This summary may not contain all the information that is important to you. It is qualified in it entirety by reference to the form of our restated certificate of incorporation included as Annex C, which is incorporated herein by reference.

General

Our current restated certificate of incorporation (which we call our "**current charter**") authorizes us to issue four billion four hundred fifty million (4,450,000,000) shares, consisting of four billion (4,000,000,000) shares of Series A common stock, par value $.01 per share (our "**existing Series A common stock**"), four hundred million (400,000,000) shares of Series B common stock, par value $.01 per share (our "**existing Series B Common stock**"), and fifty million (50,000,000) shares of preferred stock, par value $.01 per share (our "**preferred stock**"). As of January 3, 2006, we had approximately 2,681,750,785 shares of Series A common stock, 121,062,825 shares of Series B common stock and no shares of preferred stock issued and outstanding

If the reclassification is completed, all of our existing common stock will be reclassified and converted into shares of Liberty Capital common stock and Liberty Interactive common stock, the terms of which will be defined by our amended charter. Under our amended charter, our authorized capital stock will be as follows:

- four billion three hundred fifty million (4,350,000,000) authorized shares of common stock, consisting of:
  - four hundred million (400,000,000) shares of Liberty Capital Series A common stock,
  - twenty-five million (25,000,000) shares of Liberty Capital Series B common stock,
  - three hundred million (300,000,000) shares of Liberty Capital Series C common stock,
  - two billion (2,000,000,000) shares of Liberty Interactive Series A common stock,
  - one hundred and twenty-five million (125,000,000) shares of Liberty Interactive Series B common stock,
  - one billion five hundred million (1,500,000,000) shares of Liberty Interactive Series C common stock, and
- fifty million (50,000,000) authorized shares of preferred stock, which the board will be authorized to issue in series that it designates.

Our amended charter defines the assets and liabilities to be attributed to each of the Capital Group and the Interactive Group, as follows:

"**Interactive Group**" means:

- our direct and indirect interests in QVC (including any successor to all or substantially all of the assets of QVC) and IAC (including any successor to all or substantially all of the assets of IAC) and their respective properties, assets and liabilities;
- any other of our assets and liabilities attributed to the Interactive Group at the effective time of the reclassification;
- all assets, liabilities and businesses acquired by us or any of our subsidiaries for the account of, or contributed, allocated or otherwise transferred to the Interactive Group, as determined by the board of directors;

- the proceeds of any sale, transfer, exchange, assignment or other disposition of any of the foregoing; and

- any inter-group interest (as defined below) in the Capital Group at any time attributed to the Interactive Group.

"**Capital Group**" means:

- our direct and indirect interests at the effective time of the reclassification in all of the businesses in which we are or have been engaged, directly or indirectly, and in the respective assets and liabilities of us or any of our subsidiaries, other than any businesses, assets or liabilities attributed to the Interactive Group at the effective time of the reclassification;

- all assets, liabilities and businesses acquired by us or any of our subsidiaries for the account of, or contributed, allocated or otherwise transferred to the Capital Group, as determined by the board of directors;

- the proceeds of any sale, transfer, exchange, assignment or other disposition of any of the foregoing; and

- any inter-group interest in the Interactive Group at any time attributed to the Capital Group.

An "**inter-group interest**" means, as of any date, an undivided quasi-equity interest in one group held by the other group. Inter-group interests are not represented by outstanding shares of common stock, however they are generally stated in terms of a notional number of shares issuable of the group in which the inter-group interest is being created. The number of shares issuable is generally determined by dividing the aggregate dollar value of the funds contributed, or the aggregate fair market value of the assets allocated, to the other group by the market price of the common stock of the group in which the inter-group interest is being created. More specifically, the "**Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest**" is the notional number of shares of Liberty Interactive common stock in which the inter-group interest of the Capital Group in the Interactive Group will be stated, as of any date, and the "**Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest**" is the notional number of shares of Liberty Capital common stock in which the inter-group interest of the Interactive Group in the Capital Group will be stated, as of any date. Initially, neither group will have an inter-group interest in the other group.

Inter-group interests are created in the discretion of the board of directors for specific transactions, such as when funds of one group are used to effect an acquisition of assets or businesses to be attributed to the other group. Inter-group interests once created may be increased or decreased for subsequent events. For instance, if the Interactive Group holds an inter-group interest in the Capital Group at the time funds or assets are contributed by the Capital Group to the Interactive Group, the board of directors may choose to reduce the Interactive Group's inter-group interest in the Capital Group rather than create an inter-group interest in the Interactive Group in favor of the Capital Group. Such a reduction would take the form of a reduction in the Number of Shares of Issuable With Respect to the Capital Group Inter-Group Interest. The board may also forego creating or adjusting an inter-group interest by accounting for a transfer of funds or assets or a similar transaction as a short-term loan or long-term loan. See "The Reclassification Proposal Management and Allocation Polices." Throughout the following discussion of our amended charter, we describe other circumstances in which inter-group interests may be created, increased or decreased.

We may from time to time, by action of our board of directors:

- offer shares of Liberty Capital common stock or Liberty Interactive common stock for cash in one or more public offerings;

- issue shares of Liberty Capital common stock or Liberty Interactive common stock as consideration for acquisitions or investments;
- issue shares of Liberty Capital common stock or Liberty Interactive common stock to our employees pursuant to our stock-based compensation plans or otherwise as compensation; or
- issue shares of Liberty Capital common stock or Liberty Interactive common stock for any other proper corporate purpose.

As long as sufficient authorized shares are available, the timing, sequence, size and terms of such transactions would be determined by our board of directors, without further approval of the stockholders, unless deemed advisable by our board of directors in its sole discretion or required by applicable law, regulation or stock exchange requirements.

Board of Directors

Any determination made by our board of directors under any provision of our amended charter will be final and binding on all of our stockholders, except as may otherwise be required by law. References to actions or determinations to be taken or made by our board of directors under our amended charter will include actions or determinations made by any committee of the board that has been authorized by the board to act on such matters, including the executive committee of the board.

Voting Rights

Currently, holders of our existing Series A common stock have one vote per share and holders of our existing Series B common stock have 10 votes per share on all matters submitted to a vote of stockholders. Holders of our existing Series A common stock and holders of our existing Series B common stock vote together as one class on all matters as to which common stockholders generally are entitled to vote, except as otherwise required by Delaware law.

Once the reclassification is completed, holders of Liberty Capital Series A common stock, Liberty Capital Series B common stock, Liberty Interactive Series A common stock and Liberty Interactive Series B common stock will vote together as one class on all matters as to which common stockholders generally are entitled to vote, unless a separate class vote is required by our amended charter (as described below) or Delaware law.

On all matters submitted to a vote of our stockholders:

- each outstanding share of Liberty Capital Series A common stock entitles the holder to one vote per share, and each outstanding share of Liberty Interactive Series A common stock entitles the holder to one vote per share; and
- each outstanding share of Liberty Capital Series B common stock entitles the holder to 10 votes per share, and each outstanding share of Liberty Interactive Series B common stock entitles the holder to 10 votes per share.

Holders of Liberty Capital Series C common stock and Liberty Interactive Series C common stock will not be entitled to vote on any matter, except as required by Delaware law, in which case, each share of Liberty Capital Series C common stock and each share of Liberty Interactive Series C common stock entitles the respective holder to 1/100th of a vote per share.

Our amended charter provides for a separate class vote under the following circumstances:

- in connection with a disposition of all or substantially all of the Capital Group's assets when our board of directors determines to seek the approval of holders of Liberty Capital Series A common stock and holders of Liberty Capital Series B common stock, voting together as a separate class, to classify the disposition as exempt from the mandatory dividend, redemption or conversion provisions otherwise applicable to the Liberty Capital common stock as a result of such disposition; and

in connection with a disposition of all or substantially all of the Interactive Group's assets when our board of directors determines to seek the approval of holders of Liberty Interactive Series A common stock and holders of Liberty Interactive Series B common stock, voting together as a separate class, to classify the disposition as exempt from the mandatory dividend, redemption or conversion provisions otherwise applicable to the Liberty Interactive common stock as a result of such disposition.

The foregoing separate class voting rights are in addition to any vote of all of our stockholders that may be required by our amended charter or Delaware law. For more information regarding these class voting rights, see " Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group Capital Group Dispositions" and " Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group International Group Dispositions," respectively.

Dividends

Available Amounts. We have never paid cash dividends on our common stock and we currently intend to retain all of our available funds to finance operations, repay our indebtedness and fund future growth. Following the reclassification, we do not expect to pay cash dividends on Liberty Capital common stock or Liberty Interactive common stock for the foreseeable future. Under our amended charter, we will be permitted to declare and pay cash dividends:

on Liberty Capital common stock, out of the lesser of our assets legally available for the payment of dividends under Delaware law and the Capital Group Available Dividend Amount (as defined below); and

on Liberty Interactive common stock, out of our assets legally available for the payment of dividends under Delaware law and the Interactive Group Available Dividend Amount (as defined below).

We cannot assure you whether there will be an available dividend amount for either group.

"**Capital Group Available Dividend Amount**," as of any date, means generally: (i) the excess of the total assets of the Capital Group less the total liabilities of the Capital Group as of such date over the aggregate par value of, or any greater amount determined to be capital in respect of, all outstanding shares of Liberty Capital common stock or (ii) in case there is no such excess, an amount equal to the earnings or loss attributable to the Capital Group (if positive) for the fiscal year in which such date occurs and/or the preceding fiscal year.

"**Interactive Group Available Dividend Amount**," as of any date, means generally: (i) the excess of the total assets of the Interactive Group less the total liabilities of the Interactive Group as of such date over (B) the aggregate par value of, or any greater amount determined to be capital in respect of, all outstanding shares of Liberty Interactive common stock, or (ii) in case there is no such excess, an amount equal to the earnings or loss attributable to the Interactive Group (if positive) for the fiscal year in which such date occurs and/or the preceding fiscal year.

Inter-Group Dividend Amounts Capital Group Dividend. If the Interactive Group holds an inter-group interest in the Capital Group (which means that the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest is greater than zero) on the record date for any dividend or distribution with respect to the Liberty Capital common stock, then unless the dividend or distribution consists of shares of our common stock, the board of directors will compensate the Interactive Group for its inter-group interest in the Capital Group by causing the Interactive Group to receive (or be attributed (including through the creation of or an increase in an existing inter-group interest)), concurrently with the payment of such dividend on the shares of Liberty Capital common stock, cash, securities and/or other property with a fair value equal to that which the Interactive Group would have received had the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest been issued and outstanding shares of Liberty Capital common stock on the record date for the dividend or distribution.

If, however, the dividend or distribution consists of Liberty Capital common stock, the board of directors will compensate the Interactive Group by increasing the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest or making a distribution of shares of Liberty Capital Common Stock to holders of Liberty Interactive common stock.

If the dividend or distribution consists of Liberty Interactive common stock, the board of directors will compensate the Interactive Group by decreasing the Number of Shares Issuable With Respect to Interactive Group Inter-Group Interest thereby decreasing the Capital Group's inter-group interest in the Interactive Group.

Interactive Group Dividend. If the Capital Group holds an inter-group interest in the Interactive Group (which means that the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest is greater than zero) on the record date for any dividend or distribution with respect to the Liberty Interactive common stock, then unless the dividend or distribution consists of shares of our common stock, the board of directors will compensate the Capital Group for its inter-group interest in the Interactive Group by causing the Capital Group to receive (or be attributed (including through the creation of or an increase in an existing inter-group interest)), concurrently with the payment of such dividend on the shares of Liberty Interactive common stock, cash, securities and/or other property with a fair value equal to that which the Capital Group would have received had the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest been issued and outstanding shares of Liberty Interactive common stock on the record date for the dividend or distribution.

If, however, the dividend or distribution consists of Liberty Interactive common stock, the board of directors will compensate the Capital Group by increasing the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest or making a distribution of shares of Liberty Interactive common stock to holders of Liberty Capital common stock.

If the dividend or distribution consists of Liberty Capital common stock, the board of directors will compensate the Capital Group by decreasing the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest thereby decreasing the Interactive Group's inter-group interest in the Capital Group.

General. Subject to the foregoing limitations as well as those noted under " Share Distributions" below (and to any other limitations set forth in any future series of preferred stock or in any agreements binding on us from time to time), we have the sole discretion and authority to pay dividends on, or refrain from declaring and paying dividends on, our common stock. **Notwithstanding the foregoing, if dividends are paid on any series of common stock of either group, then an equal per share dividend will be concurrently paid on each other series of common stock of that group.** For example, if our board of directors declared and paid a cash dividend on the Liberty Capital Series B common stock, it would be required to declare and pay a cash dividend in the same per share amount on each outstanding share of Liberty Capital Series A common stock and Liberty Capital Series C common stock. However, it would not be required to declare and pay any dividend on any shares of Liberty Interactive common stock.

Share Distributions

Distributions on Liberty Capital Common Stock. If at any time, a share distribution is to be paid in Liberty Capital common stock, such share distribution may be declared and paid only as follows (or as described under " Conversion and Exchange" below with respect to the redemptions and other distributions referred to therein):

- a share distribution consisting of shares of Liberty Capital Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series A common stock) to holders of Liberty Capital Series A common stock, Liberty Capital Series B common stock and Liberty Capital Series C common stock, on an equal per share basis;

- a share distribution consisting of shares of Liberty Capital Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series C common stock) to holders of Liberty Capital Series A common stock, Liberty Capital Series B common stock and Liberty Capital Series C common stock, on an equal per share basis;

- a share distribution consisting of shares of Liberty Capital Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series A common stock) to holders of Liberty Capital Series A common stock, and shares of Liberty Capital Series B common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series B common stock) to holders of Liberty Capital Series B common stock, and shares of Liberty Capital Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series C common stock) to holders of Liberty Capital Series C common stock, in each case, on an equal per share basis;

- a share distribution consisting of Liberty Interactive Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series A common stock) to holders of Liberty Capital Series A common stock, Liberty Capital Series B common stock and Liberty Capital Series C common stock, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Interactive Group Inter-Group Interest, which means that a share distribution consisting of Liberty Interactive Series A common stock may only be paid on Liberty Capital common stock to the extent of the Capital Group's inter-group interest in the Interactive Group;

- a share distribution consisting of Liberty Interactive Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series A common stock) to holders of Liberty Capital Series A common stock, Liberty Capital Series B common stock and Liberty Capital Series C common stock, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Interactive Group Inter-Group Interest, which means that a share distribution consisting of Liberty Interactive Series C common stock may only be paid on Liberty Capital common stock to the extent of the Capital Group's inter-group interest in the Interactive Group;

- a share distribution consisting of shares of Liberty Interactive Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series A common stock) to holders of Liberty Capital Series A common stock, and shares of Liberty Interactive Series B common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series B common stock) to holders of Liberty Capital Series B common stock, and shares of Liberty Interactive Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series C common stock) to holders of Liberty Capital Series C common stock, in each case, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Interactive Group Inter-Group Interest, which means that a share distribution consisting of Liberty Interactive Series A, Series B and Series C common stock may only be paid on Liberty Capital common stock to the extent of the Capital Group's inter-group interest in the Interactive Group; or

a share distribution consisting of any class or series of our securities or the securities of any other person other than as described in the preceding bullet points, on the basis of a distribution of (i) identical securities, on an equal per share basis, to holders of each series of Liberty Capital common stock, (ii) separate classes or series of securities, on an equal per share basis, to the holders of the respective series of Liberty Capital common stock or (iii) a separate class or series of securities to the holders of one or more series of Liberty Capital common stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of Liberty Capital Common stock, subject to certain limitations.

We will not subdivide, consolidate or reclassify any series of Liberty Capital common stock without subdividing, consolidating or reclassifying each other outstanding series of Liberty Capital common stock on an equal per share basis.

Distributions on Liberty Interactive Common Stock. If at any time a share distribution is to be made with respect to Liberty Interactive common stock, such share distribution may be declared and paid only as follows (or as described under " Conversion and Exchange" below with respect to the redemptions and other distributions referred to therein):

a share distribution consisting of shares of Liberty Interactive Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series A common stock) to holders of Liberty Interactive Series A common stock, Liberty Interactive Series B common stock and Liberty Interactive Series C common stock, on an equal per share basis;

a share distribution consisting of shares of Liberty Interactive Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series C common stock) to holders of Liberty Interactive Series A common stock, Liberty Interactive Series B common stock and Liberty Interactive Series C common stock, on an equal per share basis;

a share distribution consisting of shares of Liberty Interactive Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series A common stock) to holders of Liberty Interactive Series A common stock, and shares of Liberty Interactive Series B common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series B common stock) to holders of Liberty Interactive Series B common stock, and shares of Liberty Interactive Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Interactive Series C common stock) to holders of Liberty Interactive Series C common stock, in each case, on an equal per share basis;

a share distribution consisting of Liberty Capital Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series A common stock) to holders of Liberty Interactive Series A common stock, Liberty Interactive Series B common stock and Liberty Interactive Series C common stock, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Capital Group Inter-Group Interest, which means that a share distribution consisting of Liberty Capital Series A common stock may only be paid on Liberty

Interactive common stock to the extent of the Interactive Group's inter-group interest in the Capital Group;

a share distribution consisting of Liberty Capital Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series A common stock) to holders of Liberty Interactive Series A common stock, Liberty Interactive Series B common stock and Liberty Interactive Series C common stock, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Capital Group Inter-Group Interest, which means that a share distribution consisting of Liberty Capital Series C common stock may only be paid on Liberty Interactive common stock to the extent of the Interactive Group's inter-group interest in the Capital Group;

a share distribution consisting of shares of Liberty Capital Series A common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series A common stock) to holders of Liberty Interactive Series A common stock, and shares of Liberty Capital Series B

common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series B common stock) to holders of Liberty Interactive Series B common stock, and shares of Liberty Capital Series C common stock (or securities convertible into or exercisable or exchangeable for shares of Liberty Capital Series C common stock) to holders of Liberty Interactive Series C common stock, in each case, on an equal per share basis, provided that no such distribution will be declared and paid in excess of the Number of Shares Issuable with Respect to the Capital Group Inter-Group Interest, which means that a share distribution consisting of Liberty Capital Series A, Series B and Series C common stock may only be paid on Liberty Interactive common stock to the extent of the Interactive Group's inter-group interest in the Capital Group; or

a share distribution consisting of any class or series of our securities or the securities of any other person other than as described in the preceding bullet points, on the basis of a distribution of (i) identical securities, on an equal per share basis, to holders of each series of Liberty Interactive common stock, (ii) separate classes or series of securities, on an equal per share basis, to the holders of the respective series of Liberty Interactive common stock or (iii) a separate class or series of securities to the holders of one or more series of Liberty Interactive common stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of Liberty Interactive common stock, subject to certain conditions.

We will not subdivide, consolidate or reclassify any series of Liberty Interactive common stock without subdividing, consolidating or reclassifying each other outstanding series of Liberty Interactive common stock in the same proportion and the same manner.

Conversion and Exchange

Conversion at the Option of the Holder. Each share of Series B common stock of a group will be convertible, at the option of the holder thereof, into one share of Series A common stock of the same group. Shares of Series A and Series C common stock of a group will not be convertible into shares of any other series.

Conversion of Liberty Interactive Common Stock at Liberty's Option. Following the first anniversary of the effective date of the reclassification (absent the earlier occurrence of a "tax event" (as defined below)), our board of directors may convert each share of Liberty Interactive Series A common stock into a number (or fraction) of shares of Liberty Capital Series A common stock, each share of Liberty Interactive Series B common stock into a number (or fraction) of shares of Liberty Capital Series B common stock and each share of Liberty Interactive Series C common stock into a number (or fraction) of shares of Liberty Capital Series C common stock, in each case based upon the ratio of the average market value of one share of Liberty Interactive Series A common stock (or another series of Liberty Interactive common stock subject to certain limitations) over a specified 60-trading day period to the average market value of one share of Liberty Capital Series A common stock (or another series of Liberty Capital common stock subject to certain limitations) over the same 60-trading day period. The average market value is determined based upon the average of the high and low reported sales prices regular way for shares of the applicable series of common stock on each trading day during the period or, absent reported sales, the average of the reported bid and ask prices regular way for the shares of the applicable series of common stock on each trading day during the period.

Prior to the first anniversary of the effective date of the reclassification, our board of directors may effect such a conversion only as a result of a "tax event." A "**tax event**" occurs when, due to an amendment, clarification, change or proposed change in the tax laws, there is a risk that (i) any issuance of Liberty Interactive common stock or Liberty Capital common stock would be treated as a sale or other taxable disposition by us, (ii) the existence of the Liberty Interactive common stock or Liberty Capital common stock would subject us or our stockholders to imposition of tax or adverse tax consequences, or (iii) either Liberty Interactive common stock or Liberty Capital common stock is not or at any time in the future would not be treated solely as common stock of Liberty for tax purposes.

The following illustration demonstrates the calculation of the number of shares issuable upon conversion of one share of Liberty Interactive Series A common stock into shares of Liberty Capital Series A common stock at our option, if:

- the average market value of one share of Liberty Capital Series A common stock as of the applicable determination date is $50; and

- the average market value of one share of Liberty Interactive Series A common stock as of the applicable determination date is $25.

In this case, each share of Liberty Interactive common stock would be converted into 0.5 of a share of the corresponding series of Liberty Capital common stock at the conversion ratio of: $25/$50 or 0.5 of a share.

These provisions allow us the flexibility to recapitalize the Liberty Interactive common stock into Liberty Capital common stock, thereby terminating the tracking stock structure. The optional conversion may be exercised, subject to the timing restrictions described above, if our board of directors determines that, under the facts and circumstances then existing, our existing tracking stock structure is no longer in the best interests of our stockholders, as a whole. An optional conversion could be effected at a time that is disadvantageous to the holders of the Liberty Interactive common stock or the Liberty Capital common stock. See "Risk Factors Factors Relating to the Reclassification Proposal and Ownership of "Tracking Stock" The adoption of a tracking stock capital structure could create conflicts of interest, and our board of directors may make decisions that could adversely affect only some holders of our common stock."

Any such conversion would dilute possibly the interests of holders of Liberty Capital common stock and would preclude holders of Liberty Interactive common stock from retaining their interest in a security intended to reflect separately the business of the Interactive Group. See "Risk Factors Risk Factors Relating to the Reclassification Proposal and ownership of "Tracking Stock" Following the first anniversary of the reclassification (absent an earlier triggering event), our board of directors may in its sole discretion elect to convert Liberty Interactive common stock into Liberty Capital common stock, thereby changing the nature of your investment and possibly diluting your economic interest in Liberty, which could result in a loss in value to you."

No Conversion of Liberty Capital Common Stock at Liberty's Option. Shares of Liberty Capital common stock are not convertible into shares of Liberty Interactive common stock, other than as described under " Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group Capital Group Dispositions."

Optional Redemption for Stock of a Subsidiary

Redemption of Liberty Capital Common Stock. If at any time a Qualifying Subsidiary (as defined below) holds assets and liabilities attributed to the Capital Group and no other assets or liabilities, we may redeem outstanding shares of Liberty Capital common stock for shares of common stock of such Qualifying Subsidiary owned by us provided that our board of directors has determined that such redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) under Section 355(a) of the Internal Revenue Code to holders of Liberty Capital common stock.

> "**Qualifying Subsidiary**" means one of our subsidiaries in which our direct or indirect ownership and voting interest is sufficient to satisfy the ownership and voting requirements for a distribution of our interest in that subsidiary to our stockholders in a transaction that qualifies for nonrecognition of gain or loss (in whole or in part) under Section 355(a) of the Internal Revenue Code. Under current law, we would need to hold at least 80% of the voting power of all classes of stock entitled to vote and 80% of the total number of shares of each class of stock of a subsidiary for it to qualify as a Qualifying Subsidiary.

The number of shares of Liberty Capital common stock to be redeemed will be determined by multiplying the number of outstanding shares of Liberty Capital common stock by the percentage of the fair market value of the Capital Group that is represented by the fair market value of our equity interest in the Qualifying Subsidiary, in each case, as determined by our board of directors. Redemptions will be made pro rata, and we will distribute all of the shares of the Qualifying Subsidiary owned by us in redemption of the shares of Liberty Capital common stock to be redeemed, unless at the time of the redemption (i) the Interactive Group has an inter-group interest in the Capital Group and (ii) the board of directors elects to cause the Interactive Group to participate in the redemption. If the board of directors makes this election, the Interactive Group will receive (or be attributed) a number of shares of the Qualifying Subsidiary owned by us based upon the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest at the record date for the redemption compared to the number of then-outstanding shares of Liberty Capital common stock, and the remaining shares of the Qualifying Subsidiary owned by us will be distributed in the redemption of outstanding shares of Liberty Capital common stock. In addition, if the board of directors makes this election, we may distribute the shares of the Qualifying Subsidiary received by or attributed to the Interactive Group to the holders of Liberty Interactive common stock. We also will reduce the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest as if the applicable portion of the notional shares reflecting such inter-group interest had been redeemed.

In effecting such a redemption the board of directors may either:

- redeem shares of each series of Liberty Capital common stock in exchange for shares of a single class or series of common stock of the Qualifying Subsidiary without distinction among the shares distributed to the holders of each series of Liberty Capital common stock;

- redeem shares of each series of Liberty Capital common stock in exchange for shares of separate classes or series of common stock of the Qualifying Subsidiary, on an equal per share basis; or

- redeem shares of one or more series of Liberty Capital common stock in exchange for shares of a separate class or series of common stock of the Qualifying Subsidiary and, on an equal per share basis, redeem shares of all other series of Liberty Capital common stock in exchange for shares of a different class or series of common stock of the Qualifying Subsidiary.

Redemption of Liberty Interactive Common Stock. If at any time a Qualifying Subsidiary holds assets and liabilities attributed to the Interactive Group and no other assets or liabilities, we may redeem outstanding shares of Liberty Interactive common stock for shares of common stock of such Qualifying Subsidiary owned by us provided that our board of directors has determined that such redemption is expected to qualify for nonrecognition of gain or loss (in whole or in part) under Section 355(a) of the Internal Revenue Code to holders of Liberty Interactive common stock. The number of shares of Liberty Interactive common stock to be redeemed will be determined by multiplying the number of outstanding shares of Liberty Interactive common stock by the percentage of the fair market value of the Interactive Group that is represented by the fair market value of our equity interest in the Qualifying Subsidiary, in each case, as determined by our board of directors. Redemptions will be made pro rata, and we will distribute all of the shares of the Qualifying Subsidiary owned by us in redemption of the shares of Liberty Interactive common stock to be redeemed, unless at the time of the redemption (i) the Capital Group has an inter-group interest in the Interactive Group and (ii) the board of directors elects to cause the Capital Group to participate in the redemption. If the board of directors makes this election, the Interactive Group will receive (or be attributed) a number of shares of the Qualifying Subsidiary owned by us based upon the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest at the record date of the redemption compared to the number of then-outstanding shares of Liberty Interactive common stock, and the remaining shares of the Qualifying Subsidiary owned by us will be distributed in the redemption of outstanding shares of Liberty Interactive common stock. In addition, if the board of directors makes this election, we may distribute the shares of the Qualifying Subsidiary received by or attributed to the Capital Group to the holders of Liberty Capital common stock. We also will reduce the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest as if the applicable portion of the notional shares reflecting such inter-group interest had been redeemed.

In effecting such a redemption the board of directors may either:

- redeem shares of each series of Liberty Interactive common stock in exchange for shares of a single class or series of common stock of the Qualifying Subsidiary without distinction among the shares distributed to the holders of each series of Liberty Interactive common stock;

- redeem shares of each series of Liberty Interactive common stock in exchange for shares of separate classes or series of common stock of the Qualifying Subsidiary, on an equal per share basis; or

- redeem shares of one or more series of Liberty Interactive common stock in exchange for shares of a separate class or series of common stock of the Qualifying Subsidiary and, on an equal per share basis, redeem shares of all other series of Liberty Interactive common stock in exchange for shares of a different class or series of common stock of the Qualifying Subsidiary.

Mandatory Dividend, Redemption or Conversion on Disposition of All or Substantially All of the Assets of a Group

Capital Group Dispositions. If there is a Capital Group Disposition (as defined below) other than an Exempt Capital Group Disposition (as defined below), and subject to the discussion under " Effect of Inter-Group Interest in Capital Group," we would be required, on or prior to the 85th trading day after the consummation of such Capital Group Disposition (or, if our board of directors seeks the approval of holders of Liberty Capital common stock to classify such disposition as an Exempt Capital Group Disposition and such approval is not obtained, the 85th trading day following the day on which the vote was taken), to take one of the following four alternative actions:

subject to the restrictions on the payment of dividends described above under " Dividends", declare and pay a dividend to holders of Liberty Capital common stock in any combination of cash, securities or other assets (other than shares of our common stock), with a fair value equal to the Capital Group Allocable Net Proceeds (as defined below) of such Capital Group Disposition as of the record date for determining the holders entitled to receive such dividend;

provided that there are assets of Liberty legally available, and the Capital Group Available Dividend Amount would have been sufficient to pay a dividend as detailed above, then:

if such Capital Group Disposition involves all (not merely substantially all) of the assets of the Capital Group, redeem all outstanding shares of Liberty Capital common stock in exchange for cash, securities or other assets (other than shares of our common stock) with a fair value equal to the Capital Group Allocable Net Proceeds of such Capital Group Disposition, to be allocated among all outstanding shares of the Capital Group as of the redemption date; or

if such Capital Group Disposition involves substantially all (but not all) of the properties and assets of the Capital Group, redeem a number of outstanding shares of Liberty Capital common stock with a fair value equal to the Capital Group Allocable Net Proceeds of such Capital Group Disposition in exchange for cash, securities or other property (other than shares of our common stock) with a fair value equal to such Capital Group Allocable Net Proceeds, being allocated to the shares of Liberty Capital common stock to be redeemed on a pro rata basis; or

convert each outstanding share of Liberty Capital Series A common stock into a number (or fraction) of shares of Liberty Interactive Series A common stock, each outstanding share of Liberty Capital Series B common stock into a number (or fraction) of shares of Liberty Interactive Series B common stock and each outstanding share of Liberty Capital Series C common stock into a number (or

fraction) of shares of Liberty Interactive Series C common stock, in each case, equal to 110% of the average daily ratio (calculated to the nearest five decimal places) of (i) the average market value of one share of Liberty Capital Series A common stock (or another series of Liberty Capital common stock subject to certain limitations) over a specified 16-trading day period to (ii) the average market value of one share of Liberty Interactive Series A common stock (or another series of Liberty Interactive common stock subject to certain limitations) over the same period; or

combine the conversion of a portion of the outstanding shares of Liberty Capital common stock, as contemplated above, with payment of a dividend on, or the redemption of, shares of Liberty Capital common stock, subject to certain limitations; in such a case, we will convert the relevant shares at the rate discussed in the bullet point above, and either pay a dividend to holders of the remaining shares of Liberty Capital common stock or redeem all or a portion of the remaining shares of Liberty Capital common stock (in exchange for a pro rata share of the Capital Group Allocable Net Proceeds) in the manner described above.

"**Capital Group Disposition**" means the disposition, in one transaction or a series of related transactions, by us or our subsidiaries of all or substantially all of the assets of the Capital Group to one or more entities. As of any date, "**substantially all of the assets of the Capital Group**" means a portion of such assets that represent at least 80% of the then fair market value (as determined by the board of directors) of the assets of the Capital Group as of such date.

"**Exempt Capital Group Disposition**" means any of the following: (i) the disposition of all or substantially all of our assets in one transaction or a series of related transactions in connection with our liquidation, dissolution or winding up, (ii) a dividend, other distribution or redemption in accordance with the provisions of our amended charter, (iii) a Capital Group Disposition to any person or entity that we, directly or indirectly, after giving effect to the disposition, control, (iv) a Capital Group Disposition in connection with a Capital Group Related Business Transaction, or (v) a Capital Group Disposition as to which the board seeks and obtains the approval of the holders of Liberty Capital Series A common stock and holders of Liberty Capital Series B common stock, voting together as a separate class, to classify such Capital Group Disposition as an Exempt Capital Group Disposition by a majority of votes cast by the holders of that stock entitled to vote thereon and present in person or by proxy at the meeting at which such vote is taken.

"**Capital Group Related Business Transaction**" means any disposition of all or substantially all of the assets of the Capital Group in which we receive as proceeds primarily equity securities of the purchaser of those assets, any entity which succeeds to those assets or a third party issuer, if a significant portion of the business or businesses in which the purchaser, successor or third party issuer is engaged or proposes to engage consists of one or more businesses similar or complementary to the businesses conducted by the Capital Group prior to such disposition, as determined in good faith by our board of directors.

"**Capital Group Net Proceeds**" means generally, as of any date, with respect to any Capital Group Disposition, an amount, if any, equal to what remains of the gross proceeds of such disposition to us after any payment of, or reasonable provision for, taxes, transaction costs (including, without limitation, any legal, investment banking and accounting fees and expenses) and any liabilities and other obligations (contingent or otherwise) incurred in connection with the disposition. To the extent the proceeds of any Capital Group Disposition include any securities or other assets other than cash, our board of directors will determine the value of such securities or assets, including for the purpose of determining the equivalent value thereof if our board of directors determines to pay a dividend or redemption price in cash, securities or other assets.

"**Capital Group Allocable Net Proceeds**" means, as of any date, with respect to any Capital Group Disposition, the Capital Group Net Proceeds of such Capital Group Disposition, unless at the time of such Capital Group Disposition the Interactive Group has an inter-group interest in the Capital Group, in which case, Capital Group Allocable Net Proceeds means the Capital Group Net Proceeds as the same will be proportionately reduced to reflect the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest compared to the number of then-outstanding shares of Liberty Capital common stock.

We may elect to pay the dividend or redemption price referred to above either in the same form as the proceeds of the disposition were received or in any other combination of cash, securities or other assets that our board of directors determines will have an aggregate fair value on a fully distributed basis, of not less than the amount allocated to such dividend or redemption.

If the redemption price is paid in the form of securities of an issuer other than Liberty, our board of directors may determine to pay the redemption price in the form of (i) identical securities, on an equal per share basis, to holders of each series of Liberty Capital common stock, (ii) separate classes or series of securities, on an equal per share basis, to the holders of each series of Liberty Capital common stock, subject to certain limitations, and (iii) a separate class or series to holders of one or more series of Liberty Capital common stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of Liberty Capital common stock, subject to certain limitations.

The exceptions to the foregoing requirements, among other things, would enable us to enter into transactions in which the properties or assets of the Capital Group may be considered to be "disposed of" in exchange for equity securities of an entity engaged or proposing to engage in similar or complementary business areas to those of the Capital Group "disposed of" while maintaining the capital structure and delineation of business groups contemplated by the reclassification proposal.

The option to convert the Liberty Capital common stock into Liberty Interactive common stock in the event of a Capital Group Disposition provides us with additional flexibility by allowing us to deliver consideration in the form of shares of Liberty Interactive common stock rather than cash, securities or other properties. This alternative could be used, for example, in circumstances when we did not have sufficient legally available assets under Delaware law to pay the full amount of an otherwise required dividend or redemption or when we desired to retain such proceeds.

If we do not have the legal capacity under Delaware law or our amended charter to pay a dividend or redeem shares with the full amount of the Capital Group Allocable Net Proceeds, our board of directors has the right to pay out as much as we are able to pay and deposit the balance in an escrow or other account for further application as soon as we are able to do so under Delaware law and our amended charter.

Effect of Inter-Group Interest in Capital Group. If at the time of a Capital Group Disposition, the Interactive Group holds an inter-group interest in the Capital Group and a dividend or distribution is effected as a result of the Capital Group Disposition, the board of directors will cause the Interactive Group to participate (or be deemed to participate) in the dividend or distribution, in the manner described under " Dividends Inter-Group Dividend Amounts" above.

If at the time of a Capital Group Disposition, the Interactive Group holds an inter-group interest in the Capital Group and a redemption of Liberty Capital common stock is effected as a result of the Capital Group Disposition, the board of directors may cause the Interactive Group to participate in the redemption, in which case the Interactive Group will receive (or be attributed), concurrently with the redemption of outstanding shares of Liberty Capital common stock, a portion of the Capital Group Net Proceeds based upon the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest at the record date for the redemption of outstanding shares of Liberty Capital common stock compared to the number of then-outstanding shares of Liberty Capital common stock. If the board of directors makes this election, we may distribute the redemption consideration received by the Interactive Group to the holders of Liberty Interactive common stock. We also will reduce the Number of Shares Issuable With Respect to the Capital Group Inter-Group Interest as if the applicable portion of the notional shares reflecting such inter-group interest had been redeemed.

Interactive Group Dispositions. If there is an Interactive Group Disposition (as defined below) other than an Exempt Interactive Group Disposition (as defined below), and subject to the discussion under " Effect of Inter-Group Interest in Interactive Group," we would be required, on or prior to the 85th trading day after the consummation of such Interactive Group Disposition (or, if our board of directors seeks the approval of holders of Liberty Interactive common stock to classify such disposition as an Exempt Interactive Group Disposition and such approval is not obtained, the 85th trading day following the day on which the vote was taken), to take one of the following four alternative actions:

- subject to the restrictions on the payment of dividends described above under " Dividends", declare and pay a dividend to holders of Liberty Interactive common stock in any combination of cash, securities or other assets (other than shares of our common stock), with a fair value equal to the Interactive Group Allocable Net Proceeds (as defined below) of such Interactive Group Disposition as of the record date for determining the holders entitled to receive such dividend;

- provided that there are assets of Liberty legally available, and the Interactive Group Available Dividend Amount would have been sufficient to pay a dividend as detailed above, then:

  - if such Interactive Group Disposition involves all (not merely substantially all) of the assets of the Interactive Group, redeem all outstanding shares of Liberty Interactive common stock in exchange for cash, securities or other assets (other than shares of our common stock) with a fair value equal to the Interactive Group Allocable Net Proceeds of such Interactive Group Disposition, to be allocated among all outstanding shares of the Interactive Group as of the redemption date; or if such Interactive Group Disposition involves substantially all (but not all) of the properties and assets of the Interactive Group, redeem a number of outstanding shares of Liberty Interactive common stock with a fair value equal to the Interactive Group Allocable Net Proceeds of such Interactive Group Disposition in exchange for cash, securities or other property (other than shares of our common stock) with a fair value equal to such Interactive Group Allocable Net Proceeds to be redeemed on a pro rata basis, being allocated to the shares of Liberty Interactive common stock; or

convert each outstanding share of Liberty Interactive Series A common stock into a number (or fraction) of shares of Liberty Capital Series A common stock, each outstanding share of Liberty Interactive Series B common stock into a number (or fraction) of shares of Liberty Capital Series B common stock and each outstanding share of Liberty Interactive Series C common stock into a number (or fraction) of shares of Liberty Capital Series C common stock, in each case, equal to 110% of the average daily ratio (calculated to the nearest five decimal places) of (i) the average market value of one share of Liberty Interactive Series A common stock (or another series of Liberty Interactive common stock subject to certain limitations) over a specified 16-trading day period to (ii) the average market value of one share of Liberty Capital Series A common stock (or another series of Liberty Capital common stock subject to certain limitations) over the same period; or

combine the conversion of a portion of the outstanding shares of Liberty Interactive common stock, as contemplated above, with payment of a dividend on, or the redemption of, shares of Liberty Interactive common stock, subject to certain limitations; in such a case, we will convert the relevant shares at the rate discussed in the bullet point above, and either pay a dividend to holders of the remaining shares of Liberty Interactive common stock or redeem all or a portion of the remaining shares of Liberty Interactive common stock (in exchange for a pro rata share of the Interactive Group Allocable Net Proceeds) in the manner described above.

"**Interactive Group Disposition**" means the disposition, in one transaction or a series of related transactions, by us or our subsidiaries of all or substantially all of the assets of the Interactive Group to one or more entities. As of any date, **"substantially all of the assets of the Interactive Group**" means a portion of such assets that represent at least 80% of the then fair market value (as determined by the board of directors) of the assets of the Interactive Group as of such date.

"**Exempt Interactive Group Disposition**" means any of the following: (i) the disposition of all or substantially all of our assets in one transaction or a series of related transactions in connection with our liquidation, dissolution or winding up, (ii) a dividend, other distribution or redemption in accordance with the provisions of our amended charter, (iii) an Interactive Group Disposition to any person or entity that we, directly or indirectly, after giving effect to the disposition, control, (iv) an Interactive Group Disposition in connection with an Interactive Group Related Business Transaction, or (v) an Interactive Group Disposition as to which the board seeks and obtains the approval of the holders of Liberty Interactive Series A common stock and holders of Liberty Interactive Series B common stock, voting together as a separate class, to classify such Interactive Group Disposition as an Exempt Interactive Group Disposition by a majority of votes cast by the holders of that stock entitled to vote thereon and present in person or by proxy at the meeting at which such vote is taken.

"**Interactive Group Related Business Transaction**" means any disposition of all or substantially all of the assets of the Interactive Group in which we receive as proceeds primarily equity securities of the purchaser of those assets, any entity which succeeds to those assets or a third party issuer, if a significant portion of the business or businesses in which the purchaser, successor or third party issuer is engaged or proposes to engage consists of one or more businesses similar or complementary to the businesses conducted by the Interactive Group prior to such disposition, as determined in good faith by our board of directors.

"**Interactive Group Net Proceeds**" means generally, as of any date, with respect to any Interactive Group Disposition, an amount, if any, equal to what remains of the gross proceeds of such disposition to us after any payment of, or reasonable provision for, taxes, transaction costs (including, without limitation, any legal, investment banking and accounting fees and expenses) and any liabilities and other obligations (contingent or otherwise) incurred in connection with the disposition. To the extent the proceeds of any Interactive Group Disposition include any securities or other assets other than cash, our board of directors will determine the value of such securities or assets, including for the purpose of determining the equivalent value thereof if our board of directors determines to pay a dividend or redemption price in cash, securities or other assets.

"**Interactive Group Allocable Net Proceeds**" means, as of any date, with respect to any Interactive Group Disposition, the Interactive Group Net Proceeds of such Interactive Group Disposition, unless at the time of such Interactive Group Disposition, Capital Group has an inter-group interest in the Interactive Group in which case, Interactive Group Allocable Net Proceeds means the Interactive Group Net Proceeds as the same will be proportionately reduced to reflect the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest compared to the number of then-outstanding shares of Liberty Interactive common stock.

We may elect to pay the dividend or redemption price referred to above either in the same form as the proceeds of the disposition were received or in any other combination of cash, securities or other assets that our board of directors determines will have an aggregate fair value on a fully distributed basis, of not less than the amount allocated to such dividend or redemption.

If the redemption price is paid in the form of securities of an issuer other than Liberty, our board of directors may determine to pay the redemption price in the form of (i) identical securities, on an equal per share basis, to holders of each series of Liberty Interactive common stock, (ii) separate classes or series of securities, on an equal per share basis, to the holders of each series of Liberty Interactive common stock, subject to certain limitations, and (iii) a separate class or series to holders of one or more series of Liberty Interactive common stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of Liberty Interactive common stock, subject to certain limitations.

The exceptions to the foregoing requirements, among other things, would enable us to enter into transactions in which the properties or assets of the Interactive Group may be considered to be "disposed of" in exchange for equity securities of an entity engaged or proposing to engage in similar or complementary business areas to those of the Interactive Group "disposed of" while maintaining the capital structure and delineation of business groups contemplated by the reclassification proposal.

The option to convert the Liberty Interactive common stock into Liberty Capital common stock in the event of an Interactive Group Disposition provides us with additional flexibility by allowing us to deliver consideration in the form of shares of Liberty Capital common stock rather than cash, securities or other properties. This alternative could be used, for example, in circumstances when we did not have sufficient legally available assets under Delaware law to pay the full amount of an otherwise required dividend or redemption or when we desired to retain such proceeds.

If we do not have the legal capacity under Delaware law or our amended charter to pay a dividend or redeem shares with the full amount of the Interactive Group Allocable Net Proceeds, our board of directors has the right to pay out as much as we are able to pay and deposit the balance in an escrow or other account for further application as soon as we are able to do so under Delaware law and our amended charter.

Effect of Inter-Group Interest in Interactive Group. If at the time of an Interactive Group Disposition, the Capital Group holds an inter-group interest in the Interactive Group and a dividend or distribution is effected as a result of the Interactive Group Disposition, the board of directors will cause the Capital Group to participate in the dividend or distribution, in the manner described under " Dividends Inter-Group Dividend Amounts" above.

If at the time of an Interactive Group Disposition, the Capital Group holds an inter-group interest in the Interactive Group and a redemption of Liberty Interactive common stock is effected as a result of the Interactive Group Disposition, the board of directors may cause the Capital Group to participate in the redemption, in which case the Capital Group will receive (or be attributed), concurrently with the redemption of outstanding shares of Liberty Interactive common stock, a portion of the Interactive Group Net Proceeds based upon the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest at the record date for the redemption of outstanding shares of Liberty Interactive common stock compared to the number of then-outstanding shares of Liberty Interactive common stock. If the board of directors makes this election, we may distribute the redemption consideration received by the Capital Group to the holders of Liberty Capital common stock. We also will reduce the Number of Shares Issuable With Respect to the Interactive Group Inter-Group Interest as if the applicable portion of the notional shares reflecting such inter-group interest had been redeemed.

General Dividend, Redemption and Conversion Provisions

Public Announcements. We are required to provide certain notices to holders of Liberty Capital common stock and holders of Liberty Interactive common stock in connection with the dividend, redemption and conversion provisions of our amended charter. All public announcements required by our amended charter will include such further statements, and we reserve the right to make such further public announcements, as may be required by law or the rules of the principal national securities exchange on which the applicable series of our common stock is listed or as our board of directors may, in its discretion, deem appropriate. Any notice sent to a registered holder of any series of our common stock will be sent by first-class mail, postage prepaid to such holder's address as the same appears on our transfer books.

Neither the failure to mail any required notice to any particular holder of any series of our common stock nor any defect therein will affect the sufficiency thereof with respect to any other holder of outstanding shares of any series of our common stock, or the validity of any action taken pursuant to our amended charter.

No Adjustments. No adjustments in respect of dividends will be made upon the conversion or redemption of any shares of any series of our common stock, provided that, except as explicitly otherwise contemplated by our amended charter, if the conversion date or the redemption date with respect to any shares of our common stock will be subsequent to the record date for the payment of a dividend or other distribution thereon or with respect thereto, but prior to the payment of such dividend or distribution, the holders of record of such shares of our common stock at the close of business on such record date will be entitled to receive the dividend or other distribution payable on or with respect to such shares on the date set for payment of such dividend or other distribution, notwithstanding the prior conversion or redemption of such shares.

Surrender of Shares. Before any holder of shares of our common stock becomes entitled to receive certificates representing shares of any kind of capital stock or cash, securities (other than Capital Stock) or other assets to be received by such holder with respect to such shares upon any conversion of such shares at our option or in connection with a mandatory dividend, redemption or conversion in case of a Capital Group Disposition or an Interactive Group Disposition, as applicable, such holder will surrender, at a place to be specified by us, such shares, properly endorsed or assigned for transfer (unless we waive such requirement). We will as soon as practicable after such surrender of certificates representing such shares, deliver, or cause to be delivered, at the office of the transfer agent for the shares or other securities to be delivered, to the holder for whose account such shares were so surrendered, or to the nominee or nominees of such holder, certificates representing the number of whole shares of the kind of capital stock or cash, securities (other than Capital Stock) or other assets to which such person will be entitled, together with any payment for fractional securities. If less than all of the shares represented by any one certificate are to be redeemed or converted, we will issue and deliver a new certificate for the shares represented thereby and not redeemed or converted. We will not be required to register a transfer of (i) any shares of our common stock for the period preceding any selection of shares to be redeemed or converted set forth in the applicable public announcement or notice or (ii) any shares of our common stock selected for redemption or conversion. Shares selected for redemption may not thereafter be converted at the option of the holder.

From and after any applicable conversion date or redemption date, all rights of a holder of shares of our common stock that were converted or redeemed on such conversion date or redemption date, as applicable, will cease except for the right, upon surrender of the certificates representing such shares, to receive certificates representing shares of the kind and amount of capital stock or cash, securities (other than Capital Stock) or other assets for which such shares were converted or redeemed, as applicable, together with any payment for fractional securities and such holder will have no other or further rights in respect of the shares of our common stock so converted or redeemed, including, but not limited to, any rights with respect to any cash, securities or other assets which are reserved or otherwise designated by us as being held for the satisfaction of our obligations to pay or deliver any cash, securities or other assets upon the conversion, exercise or exchange of any convertible securities outstanding as of the date of such conversion or redemption. No holder of a certificate that immediately prior to the applicable conversion date or redemption date represented shares of our common stock will be entitled to receive any dividend or other distribution with respect to shares of any kind of capital stock into or in exchange for which such shares of our common stock were converted or redeemed until surrender of such holder's certificate for a certificate representing shares of such kind of capital stock. Upon such surrender, there will be paid to the holder the amount of any dividends or other distributions (without interest) which theretofore became payable with respect to a record date after the conversion date or redemption date, as the case may be, but that were not paid by reason of the foregoing, with respect to the number of whole shares of the kind of capital stock represented by the certificate or certificates issued upon such surrender. From and after a conversion date or redemption date, as the case may be, we will, however, be entitled to treat certificates representing shares of our common stock that have not yet been surrendered for such conversion or redemption as evidencing the ownership of the number of whole shares of the kind or kinds of capital stock for which the shares of our common stock represented by such certificates will have been converted or redeemed at our option or in connection with the holding by a Qualifying Subsidiary of assets and liabilities of either group or a Capital Group Disposition or an Interactive Group Disposition, notwithstanding the failure of the holder thereof to surrender such certificates.

No Fractional Shares. We will not be required to issue or deliver fractional shares of any class or series of capital stock or any other securities in a smaller than authorized denomination to any holder of our common stock upon any conversion, redemption, dividend or other distribution. In connection with the determination of the number of shares of any class or series of capital stock that will be issuable or the amount of securities that will be deliverable to any holder of record of our common stock upon any such conversion, redemption, dividend or other distribution (including any fractions of shares or securities), we may aggregate the shares of our common stock held at the relevant time by such holder of record. If the aggregate number of shares of capital stock or other securities to be issued or delivered to any holder of our common stock includes a fraction of the minimum authorized denomination, we will pay a cash adjustment in respect of such fraction in an amount equal to the value of such fraction as of the trading day specified by our board of directors for such purpose (without interest). For purposes of the preceding sentence, "such value" of any fraction will equal the product of such fraction and the fair value of one such share or the minimum authorized denomination of such other security as of such specified trading day.

Liquidation and Dissolution

In the event of the liquidation, dissolution or winding up, whether voluntary or involuntary, of our company, after payment or provision for payment of our debts and liabilities and subject to the prior payment in full of the preferential amounts to which any series of preferred stock is entitled, the holders of shares of Liberty Capital common stock and the holders of shares of Liberty Interactive common stock will be entitled to receive in respect of shares of Liberty Capital common stock and Liberty Interactive common stock their proportionate interests in our assets remaining for distribution to holders of our common stock (regardless of the group to which such assets are then attributed) in proportion to the respective number of liquidation units per share of Liberty Capital common stock and Liberty Interactive common stock. Neither our consolidation or merger with or into any other person nor the sale, transfer or lease of all or substantially all of our assets will itself be deemed to be a liquidation, dissolution or winding up.

The liquidation units per share of each series of common stock will be as follows:

- each share of Liberty Capital common stock will have one liquidation unit; and

- each share of Liberty Interactive common stock will have a number of liquidation units (including a fraction of one liquidation unit) equal to the quotient (rounded to the nearest five decimal places) of the daily volume weighted average prices of one share of Liberty Interactive Series A common stock over the first 20 trading days on which the Liberty Interactive Series A common stock trades in the regular way market, divided by the daily volume weighted average prices of one share of Liberty Capital Series A common stock over the first 20 trading days on which the Liberty Capital Series A common stock trades in the regular way market.

If we in any manner subdivide (by stock split, reclassification or otherwise) or combine (by reverse stock split, reclassification or otherwise) the outstanding shares of Liberty Capital common stock or Liberty Interactive common stock, or declare and pay a distribution in shares of Liberty Capital common stock or Liberty Interactive common stock, the per share liquidation units of the Liberty Capital common stock or Liberty Interactive common stock, as applicable, specified above, as adjusted from time to time, will be appropriately adjusted as determined by our board of directors, so as to avoid any dilution in the aggregate, relative liquidation rights of the shares of Liberty Capital common stock and Liberty Interactive common stock.

Description of Other Provisions of our Amended Charter

The following terms of our amended charter are substantially similar to the corresponding terms found in our existing charter.

Preferred Stock

Our amended charter authorizes the board of directors to establish one or more series of preferred stock and to determine, with respect to any series of preferred stock, the terms and rights of the series, including:

- the designation of the series;

- the number of authorized shares of the series, which number our board may increase or decrease but not below the number of such shares of such series of preferred stock then outstanding;

- the dividend rate or amounts, if any, and, in the case of cumulative dividends, the date or dates from which dividends on all shares of the series will be cumulative and the relative preferences or rights of priority or participation with respect to such dividends;

- the rights of the series in the event of our voluntary or involuntary liquidation, dissolution or winding up and the relative preferences or rights of priority of payment;

- the rights, if any, of holders of the series to convert into or exchange for other classes or series of stock or indebtedness and the terms and conditions of any such conversion or exchange, including provision for adjustments within the discretion of our board of directors;

- the voting rights, if any, of the holders of the series;

- the terms and conditions, if any, for us to purchase or redeem the shares; and

- any other relative rights, preferences and limitations of the series.

We believe that the ability of our board of directors to issue one or more series of preferred stock will provide flexibility in structuring possible future financing and acquisitions and in meeting other corporate needs which might arise. The authorized shares of our preferred stock will be available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. If the approval of our stockholders is not required for the issuance of shares of our preferred stock or our common stock, our board may determine not to seek stockholder approval.

Although we have no intention at the present time of doing so, we could issue a series of preferred stock that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt. Our board will make any determination to issue such shares based upon its judgment as to the best interests of our stockholders. Our board of directors, in so acting, could issue preferred stock having terms that could discourage an acquisition attempt through which an acquirer may be able to change the composition of our board of directors, including a tender offer or other transaction that some, or a majority, of our stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then-current market price of the stock.

Board of Directors

Our amended charter provides that, subject to any rights of the holders of any series of our preferred stock to elect additional directors, the number of our directors will not be less than three and the exact number will be fixed from time to time by a resolution of our board. The members of our board, other than those who may be elected by holders of our preferred stock, are divided into three classes. Each class consists, as nearly as possible, of a number of directors equal to one-third of the then authorized number of board members. The term of office of our Class I directors expires at the annual meeting of our stockholders in 2008. The term of office of our Class II directors expires at the annual meeting of our stockholders in 2006. The term of office of our Class III directors expires at the annual meeting of our stockholders in 2007. At each annual meeting of our stockholders, the successors of that class of directors whose term expires at that meeting will be elected to hold office for a term expiring at the annual meeting of our stockholders held in the third year following the year of their election. The directors of each class will hold office until their respective successors are elected and qualified.

Our amended charter provides that, subject to the rights of the holders of any series of our preferred stock, our directors may be removed from office only for cause upon the affirmative vote of the holders of at least a majority of the aggregate voting power of our outstanding capital stock entitled to vote at an election of directors, voting together as a single class.

Our amended charter provides that, subject to the rights of the holders of any series of our preferred stock, vacancies on our board resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on our board, will be filled only by the affirmative vote of a majority of the remaining directors then in office (even though less than a quorum) or by the sole remaining director. Any director so elected will hold office for the remainder of the full term of the class of directors in which the vacancy occurred or to which the new directorship is assigned, and until that director's successor will have been elected and qualified or until such director's earlier death, resignation or removal. No decrease in the number of directors constituting our board will shorten the term of any incumbent director, except as may be provided in any certificate of designation with respect to a series of our preferred stock with respect to any additional director elected by the holders of that series of our preferred stock.

These provisions would preclude a third party from removing incumbent directors and simultaneously gaining control of our board by filling the vacancies created by removal with its own nominees. Under the classified board provisions described above, it would take at least two elections of directors for any individual or group to gain control of our board. Accordingly, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of Liberty.

Limitation on Liability and Indemnification

To the fullest extent permitted by Delaware law, our directors are not liable to us or any of our stockholders for monetary damages for breaches of fiduciary duties while serving as a director. In addition, we indemnify and hold harmless, to the fullest extent permitted by applicable law, any person involved in any suit or action by reason of the fact that such person is a director or officer of Liberty or, at our request, a director, officer, employee or agent of another corporation or entity, against all liability, loss and expenses incurred by such person. We will pay expenses of a director or officer in defending any proceeding in advance of its final disposition, provided that such payment is made upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to indemnification.

No Shareowner Action by Written Consent; Special Meetings

Our amended charter provides that, except as otherwise provided in the terms of any series of preferred stock, no action required to be taken or which may be taken at any annual meeting or special meeting of stockholders may be taken without a meeting and may not be effected by any consent in writing by such holders. Except as otherwise required by law and subject to the rights of the holders of any series of our preferred stock, special meetings of our stockholders for any purpose or purposes may be called only by our Secretary or at the request of at least 75% of the members of the our board of directors then in office. No business other than that stated in the notice of special meeting will be transacted at any special meeting.

Amendments

Our amended charter provides that, subject to the rights of the holders of any series of our preferred stock, the affirmative vote of the holders of at least $66^2/_3$% of the aggregate voting power of our outstanding capital stock generally entitled to vote upon all matters submitted to our stockholders, voting together as a single class, is required to adopt, amend or repeal any provision of our amended charter or the addition or insertion of other provisions in our amended charter, provided that the foregoing voting requirement will not apply to any adoption, amendment, repeal, addition or insertion (1) as to which Delaware law does not require the consent of our stockholders or (2) which has been approved by at least 75% of the members of our board then in office. Our amended charter further provides that the affirmative vote of the holders of at least $66^2/_3$% of the aggregate voting power of our outstanding capital stock generally entitled to vote upon all matters submitted to our stockholders, voting together as a single class, is required to adopt, amend or repeal any provision of our bylaws, provided that the foregoing voting requirement will not apply to any adoption, amendment or repeal approved by the affirmative vote of not less than 75% of the members of our board then in office.

Supermajority Voting Provisions

In addition to the supermajority voting provisions discussed under " Amendments" above, the amended charter provides that, subject to the rights of the holders of any series of our preferred stock, the affirmative vote of the holders of at least $66^2/_3$% of the aggregate voting power of our outstanding capital stock generally entitled to vote upon all matters submitted to our stockholders, voting together as a single class, is required for:

- our merger or consolidation with or into any other corporation, provided, that the foregoing voting provision will not apply to any such merger or consolidation (1) as to which the laws of the State of Delaware, as then in effect, do not require the consent of our stockholders, or (2) that at least 75% of the members of our board of directors then in office have approved;

- the sale, lease or exchange of all, or substantially all, of our assets, provided, that the foregoing voting provisions will not apply to any such sale, lease or exchange that at least 75% of the members of our board of directors then in office have approved; or

- our dissolution, provided, that the foregoing voting provision will not apply to such dissolution if at least 75% of the members of our board of directors then in office have approved such dissolution.

Section 203 of the DGCL

Section 203 of the Delaware General Corporation Law prohibits certain transactions between a Delaware corporation and an "interested stockholder." An "interested stockholder" for this purpose is a stockholder who is directly or indirectly a beneficial owner of 15% or more of the aggregate voting power of a Delaware corporation. This provision prohibits certain business combinations between an interested stockholder and a corporation for a period of three years after the date on which the stockholder became an interested stockholder, unless: (1) the transaction which resulted in the stockholder becoming an interested stockholder is approved by the corporation's board of directors before the stockholder became an interested stockholder, (2) the interested stockholder acquired at least 85% of the aggregate voting power of the corporation in the transaction in which the stockholder became an interested stockholder, or (3) the business combination is approved by a majority of the board of directors and the affirmative vote of the holders of two-thirds of the aggregate voting power not owned by the interested stockholder at or subsequent to the time that the stockholder became an interested stockholder. These restrictions do not apply if, among other things, the corporation's certificate of incorporation contains a provision expressly electing not to be governed by Section 203. Neither our existing charter nor our amended charter contains such an election.

Material U.S. Federal Income Tax Consequences

The following discussion is a summary of the material U.S. federal income tax consequences to you of the receipt of Liberty Interactive common stock and Liberty Capital common stock in exchange for your shares of our common stock in the reclassification, and is the opinion of Baker Botts L.L.P., insofar as it relates to matters of U.S. federal income tax law and legal conclusions with respect to those matters. This opinion is included as an exhibit to the registration statement of which this proxy statement/prospectus forms a part. The opinion of Baker Botts L.L.P. is conditioned upon the accuracy of the statements, representations, covenants, and assumptions upon which the opinion is based and is subject to the conditions, limitations, and qualifications referenced below and in the opinion. This discussion assumes that the opinion of Baker Botts L.L.P. described below under " Tax Implications of the Reclassification" will be delivered to us on the effective date of the reclassification and that the statements, representations, covenants, and assumptions upon which such opinion is based will be accurate. Any inaccuracy in any of the statements, representations, or assumptions or breach of any of the covenants upon which either of the opinions of Baker Botts L.L.P. are based could adversely affect their opinions and alter the conclusions described below in this discussion.

This discussion is based upon the Internal Revenue Code of 1986, as amended (referred to as the "Code"), Treasury regulations promulgated thereunder, administrative pronouncements and judicial decisions as of the date of this proxy statement/prospectus, all of which are subject to change or differing interpretations at any time, possibly with retroactive effect. In particular, Congress could enact legislation affecting the treatment of stock with characteristics similar to the Liberty Interactive common stock and the Liberty Capital common stock, or the Treasury Department could change the current law in future regulations, including regulations issued pursuant to its authority under Section 337(d) of the Code (granting the Treasury regulatory authority with respect to the proper tax treatment of corporate distributions of appreciated property to shareholders). Any future legislation, regulations, or other guidance could be enacted or promulgated so as to apply retroactively to the reclassification and the creation of the Liberty Interactive common stock and the Liberty Capital common stock. Any such changes could affect the continuing validity of this discussion.

This discussion addresses only those of you who hold your shares of our common stock, and will, after the reclassification, hold your shares of Liberty Interactive common stock and Liberty Capital common stock, as capital assets within the meaning of Section 1221 of the Code. We have included this discussion for general information only. This discussion is limited to the U.S. federal income tax consequences of the reclassification and does not purport to be a complete technical analysis or listing of all potential tax consequences that may be relevant to you in light of your particular tax circumstances. Further, this discussion does not address holders of our common stock who are subject to special treatment under U.S. federal income tax laws, such as:

- tax-exempt organizations;
- S corporations and other pass-through entities and owners thereof;
- entities taxable as a partnership for U.S. federal income tax purposes and owners thereof;
- insurance companies and other financial institutions;
- mutual funds;
- dealers in stocks and securities;
- traders or investors in our common stock who elect the mark-to-market method of accounting for such stock;
- stockholders who received our common stock from the exercise of employee stock options or otherwise as compensation;
- stockholders who hold our common stock in a tax-qualified retirement plan, individual retirement account or other qualified savings account;
- stockholders who hold their shares of our common stock as part of a hedge, straddle, or a constructive sale or conversion transaction or other risk reduction or integrated investment transaction; and
- individuals who are not citizens or residents of the United States, foreign corporations and other foreign entities.

This discussion also does not address the effect of any state, local or foreign tax laws that may apply or the application of the U.S. federal estate and gift tax or the alternative minimum tax. In addition, this discussion does not address the U.S. federal income tax consequences of the reclassification to holders of options, warrants or other rights to acquire shares of our stock.

You should consult your own tax advisors regarding the application of the U.S. federal income tax laws to your particular situation, as well as the applicability of any U.S. federal estate and gift, state, local or foreign tax laws to which you may be subject.

Tax Implications of the Reclassification

It is a nonwaivable condition to the completion of the reclassification that we receive the opinion of Baker Botts L.L.P., dated as of the effective date of the reclassification, to the effect that:

- the reclassification will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code;

- the Liberty Interactive common stock and the Liberty Capital common stock issued in the reclassification will be treated as stock of Liberty for U.S. federal income tax purposes;

- except with respect to cash received instead of fractional shares, holders of our common stock will not recognize income, gain or loss as a result of the conversion of their shares of our common stock into shares of Liberty Interactive common stock and Liberty Capital common stock in the reclassification; and

- the Liberty Interactive common stock and the Liberty Capital common stock issued in the reclassification will not constitute Section 306 stock within the meaning of Section 306(c) of the Code.

The opinion of Baker Botts L.L.P. will be conditioned upon the accuracy of the statements, representations, covenants, and assumptions upon which the opinion is based and will be subject to the conditions, limitations, and qualifications referenced in the opinion and in this discussion under the heading " Material U.S. Federal Income Tax Consequences." Any inaccuracy in any of the statements, representations, or assumptions or breach of any of the covenants upon which the opinion is based could adversely affect the conclusions reached in the opinion. Please see the discussion below under the heading " No IRS Ruling Will Be Obtained" for a further discussion of the opinion.

Assuming that the opinion of Baker Botts L.L.P. is delivered to us on the effective date of the reclassification, as described above, and that the treatment of the reclassification as described therein is respected, then:

- your aggregate basis in your Liberty Interactive common stock, including any fractional shares deemed received, will equal a portion of your aggregate basis in your Liberty common stock surrendered in the reclassification based on the relative fair market value of the Liberty Interactive common stock as compared to the total consideration received by you pursuant to the reclassification;

- your aggregate basis in your Liberty Capital common stock, including any fractional shares deemed received, will equal a portion of your aggregate basis in your Liberty common stock surrendered in the reclassification based on the relative fair market value of the Liberty Capital common stock as compared to the total consideration received by you pursuant to the reclassification;

- the holding period of the Liberty Interactive common stock and the Liberty Capital common stock received by you in the reclassification will include the holding period of your Liberty common stock surrendered in exchange therefor;

no gain or loss will be recognized by Liberty as a result of the issuance of the Liberty Interactive common stock and the Liberty Capital common stock in the reclassification; and

you will generally not recognize income, gain or loss if we exercise our option to convert your shares of Liberty Interactive common stock into Liberty Capital common stock.

If you receive cash instead of fractional shares of Liberty Interactive common stock or Liberty Capital common stock or both, you will be treated as having received such fractional shares in the reclassification and then as having sold such fractional shares for the cash received. This sale will generally result in the recognition of gain or loss for U.S. federal income tax purposes, measured by the difference between the amount of cash received for such fractional shares and your tax basis in such fractional shares (determined as described above), which gain or loss will be capital gain or loss.

You will be required to file with your U.S. federal income tax return for the taxable year in which the reclassification occurs a statement setting forth certain facts relating to the reclassification, including your tax basis in the shares of our common stock exchanged in the reclassification and the number of shares of Liberty Interactive common stock and Liberty Capital common stock received by you in the reclassification. You must also keep a permanent record of facts relating to the conversion of your shares of our common stock into shares of Liberty Interactive common stock and Liberty Capital common stock.

No IRS Ruling Will Be Obtained

We have not sought any ruling from the IRS, and do not intend to seek any ruling, relating to the reclassification. The IRS has announced that it will not issue advance rulings on the characterization of instruments similar to the Liberty Interactive common stock and the Liberty Capital common stock that have certain voting and liquidation rights in an issuing corporation, but whose dividend rights are determined by reference to the earnings and profits of a segregated portion of the issuing corporation's assets.

Opinions of counsel are not equivalent to rulings from the IRS, and the conclusions expressed in such opinion could be challenged by the IRS. In addition, there are no Code provisions, Treasury regulations, court decisions or published rulings of the IRS bearing directly on the tax effects of the issuance and characterization of stock with characteristics similar to the Liberty Interactive common stock and the Liberty Capital common stock. Therefore, the tax treatment of the reclassification is subject to some uncertainty. In view of the absence of authorities directly on point or a private letter ruling from the IRS, there is a risk that the IRS could successfully assert that the receipt of the Liberty Interactive common stock or the Liberty Capital common stock or both in the reclassification, as well as any subsequent conversion of Liberty Interactive common stock into Liberty Capital common stock, could be taxable to you and/or to us.

If Liberty Interactive common stock or Liberty Capital common stock or both represent property other than stock of Liberty ("Other Property"), the receipt of Liberty Interactive common stock or Liberty Capital common stock or both by you might be treated as a fully taxable dividend in an amount equal to the fair market value of such stock constituting Other Property (subject in the case of stockholders that are corporations, to any applicable dividends received deduction) or might be treated as a distribution in complete liquidation of Liberty, in which case you would recognize gain or loss with respect to your shares of our common stock held immediately prior to the reclassification. Furthermore, we or our subsidiaries would recognize a significant taxable gain as a result of the reclassification in an amount equal to the excess of the fair market value of such stock constituting Other Property over its federal income tax basis to us or our subsidiaries allocable to such Other Property. Pursuant to the Management and Allocation Policies, the cash for the payment of these taxes would be drawn from funds attributable to the Capital Group. In addition, we may no longer be able to file a consolidated U.S. federal income tax return which includes eligible entities attributable to both the Interactive

Group and the Capital Group. These tax liabilities, if they arise, would be likely to have a material adverse effect on us and each group.

Information Reporting and Backup Withholding

In general, information reporting to the IRS and backup withholding may apply to your receipt of cash instead of fractional shares of Liberty Interactive common stock and Liberty Capital common stock. Backup withholding (currently 28%) may apply to "reportable payments" if you fail to provide a correct taxpayer identification number and certain other information, fail to provide a certification of exempt status or fail to report your full dividend and interest income. You are not subject to backup withholding if you (1) are a corporation or fall within certain other exempt categories and, when required, demonstrate that fact; or (2) provide a correct taxpayer identification number, certify under penalties of perjury that you are not subject to backup withholding, and otherwise comply with the applicable requirements of the backup withholding rules.

Backup withholding is not an additional tax; any amounts withheld under the backup withholding rules will be allowed as a refund or credit against your U.S. federal income tax liability provided the required information is furnished to the IRS. The information reporting requirements may apply regardless of whether backup withholding is required.

No Appraisal Rights

Under Delaware General Corporation Law, you will not have appraisal rights in connection with the reclassification.

Stock Exchange Listings

We have applied to list Liberty Interactive Series A common stock and Liberty Interactive Series B common stock on the Nasdaq National Market under the symbols "LINTA" and "LINTB," respectively. We have applied to list Liberty Capital Series A common stock and Liberty Capital Group Series B common stock on the Nasdaq National Market under the symbols "LCAPA" and "LCAPB," respectively.

Stock Transfer Agent and Registrar

Computershare Shareholder Services, Inc. will be the transfer agent and registrar for the Liberty Interactive common stock and the Liberty Capital common stock.

Accounting Treatment

The reclassification, if completed, would not cause any accounting related adjustments. On a prospective basis, we will disclose earnings per share information for each of the Interactive Group and the Capital Group based on the earnings attributable to each group and the weighted average shares (both outstanding and on a fully diluted basis) of each group.

ADDITIONAL INFORMATION

Legal Matters

Legal matters relating to the validity of the securities to be issued if the reclassification is completed will be passed upon by Baker Botts L.L.P.

Stockholder Proposals

We currently expect that our annual meeting of stockholders for the calendar year 2006 will be held during the second quarter of 2006. In order to be eligible for inclusion in the proxy materials for the 2006 annual meeting, any stockholder proposal must have been submitted in writing to our Corporate Secretary and received at our executive offices at 12300 Liberty Boulevard, Englewood, Colorado 80112, by the close of business on December 30, 2005 unless a later date is determined and announced in connection with the actual scheduling of the annual meeting. To be considered for presentation at the 2006 annual meeting, any stockholder proposal must have been received at our executive offices at the foregoing address on or before the close of business on February 9, 2006 or such later date as may be determined and announced in connection with the actual scheduling of the annual meeting.

All stockholder proposals for inclusion in our proxy materials will be subject to the requirements of the proxy rules adopted under the Exchange Act and, as with any stockholder proposal (regardless of whether it is included in our proxy materials), our charter and bylaws and Delaware law.

Where You Can Find More Information

We have filed with the Securities and Exchange Commission a registration statement on Form S-4 under the Securities Act with respect to the securities being offered by this proxy statement/prospectus. This proxy statement/prospectus, which forms a part of the registration statement, does not contain all the information included in the registration statement and the exhibits thereto. You should refer to the registration statement, including its exhibits and schedules, for further information about us and the securities being offered hereby.

We are subject to the information and reporting requirements of the Exchange Act and, in accordance with the Exchange Act, we file periodic reports and other information with the Securities and Exchange Commission. You may read and copy any document that we file at the Public Reference Room of the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at (800) SEC-0330. You may also inspect such filings on the Internet website maintained by the SEC at *www.sec.gov*. Information contained on any website referenced in this proxy statement/prospectus is not incorporated by reference in this proxy statement/prospectus. In addition, copies of documents filed by us with the Securities and Exchange Commission are also available by contacting us by writing or telephoning the office of Investor Relations:

Liberty Media Corporation
12300 Liberty Boulevard
Englewood, Colorado 80112
Telephone: (877) 772-1518

The Securities and Exchange Commission allows us to "incorporate by reference" information into this document, which means that we can disclose important information about us to you by referring you to other documents. The information incorporated by reference is an important part of this proxy statement/prospectus, and is deemed to be part of this document except for any information superseded by this document or any other document incorporated by reference into this document. Any statement, including financial statements, contained in our Annual Report on Form 10-K for the year ended

December 31, 2004 shall be deemed to be modified or superseded to the extent that a statement, including financial statements, contained in this proxy statement/prospectus or in any other later incorporated document modifies or supersedes that statement. We incorporate by reference the documents listed below and any future filings we make with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than any report or portion thereof furnished or deemed furnished under any Current Report on Form 8-K) prior to the date of the special meeting:

Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 15, 2005;

Quarterly Report on Form 10-Q for the three months ended March 31, 2005, filed on May 9, 2005;

Quarterly Report on Form 10-Q for the three months ended June 30, 2005, filed on August 5, 2005;

Quarterly Report on Form 10-Q for the three months ended September 30, 2005, filed on November 9, 2005;

Current Reports on Form 8-K (other than the portions of those documents not deemed filed), filed on:

Date of Report	**Date of Filing**
January 28, 2005	February 2, 2005
June 14, 2005	June 20, 2005
July 21, 2005	July 26, 2005
August 2, 2005	August 8, 2005
November 8, 2005	November 15, 2005
July 21, 2005	December 15, 2005
December 28, 2005	December 30, 2005

Annex A

DESCRIPTION OF BUSINESS

General

We are a holding company which, through ownership of interests in subsidiaries and other companies, is primarily engaged in the electronic retailing, media, communications and entertainment industries. Through our subsidiaries, we operate in the United States, Europe and Asia. If the reclassification is completed, we will have two tracking stocks, the Liberty Interactive common stock and the Liberty Capital common stock whose terms are intended to track and reflect the separate economic performance of the Interactive Group and the Capital Group, respectively. Set forth in this section is a description of the businesses attributed to each of the Interactive Group and the Capital Group. Although we are describing these businesses separately for purposes of establishing our tracking stock structure and in order to give you a better understanding of the assets attributed to each group, the two groups are not separate legal entities and the holders of each group's stock are our shareholders.

The Interactive Group is comprised of our interests in our subsidiary QVC, Inc. (which has $800 million of bank debt), our interest in IAC/InterActiveCorp and such other of our assets and liabilities that our board of directors may in the future determine to attribute to the Interactive Group or may be acquired in the future for the Interactive Group. In addition, we will attribute approximately $4.01 billion principal amount, as of September 30, 2005, of our existing parent company debt to the Interactive Group.

The Capital Group is comprised of the remainder of our businesses and assets, including our interests in our subsidiaries Starz Entertainment Group LLC, On Command Corporation, OpenTV Corp. and TruePosition, Inc, our interests in our equity affiliates Courtroom Television Network LLC, GSN, LLC, Expedia, Inc. and WildBlue Communications, and our interests in Motorola, Inc., News Corporation, Sprint Nextel Corporation, Time Warner, Inc., Viacom., and IDT Corporation and such other assets and liabilities that our board of directors may in the future determine to attribute to the Capital Group or may be acquired in the future for the Capital Group. In addition, we will allocate approximately $5.39 billion principal amount, as of September 30, 2005, of our existing parent company debt to the Capital Group.

The Interactive Group

The Interactive Group includes businesses primarily focused on video and on-line commerce.

QVC, Inc.

QVC, Inc. and its subsidiaries market and sell a wide variety of consumer products in the U.S. and several foreign countries primarily by means of merchandise-focused televised shopping programs on the QVC networks and, to a lesser extent, 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 representing the product vendor, 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 networks as well as other items that are available from QVC only via its websites. Currently, approximately 17% of QVC's domestic revenue and approximately 15% of QVC's total revenue is 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. From January 1, 2005 to September 30, 2005, home, apparel/accessories and jewelry accounted for approximately 41%, 35% and 24%, respectively, of QVC's net revenue generated by its United States operations. QVC offers products in each of these merchandise groups that are exclusive to QVC as well as popular brand name products. QVC's exclusive products are often endorsed by celebrities, designers and other well known personalities. QVC does not depend on any single supplier or designer for a significant portion of its inventory.

QVC distributes its television programs, via satellite or optical fiber, to multichannel video program distributors for retransmission to subscribers in the United States, the United Kingdom, Germany, Japan and neighboring countries that receive QVC's broadcast signals. In the U.S., QVC uplinks its programming from its uplink facility in Pennsylvania to a protected, non-preemptible transponder on a domestic satellite. "Protected" status means that, in the event of a transponder failure, QVC's signal will be transferred to a spare transponder or, if none is available, to a preemptible transponder located on the same satellite or, in certain cases, to a transponder on another satellite owned by the same lessor if one is available at the time of the failure. QVC's international business units each lease uplinking facilities from third parties for their uplinking and transmit their programming to non-preemptible transponders on five international satellites. "Non-preemptible" status means that, in the event of a transponder failure, QVC's transponders cannot be preempted in favor of a user having protected status. QVC's transponder lease for its domestic transponder expires in 2019. QVC's transponder leases for its international transponders expire in 2006 through 2013.

QVC enters into long-term affiliation agreements with satellite 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 2005 to 2014. 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 return for carrying the QVC signals, each programming distributor in the United States, the UK and Germany 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 Japan, some programming distributors receive an agreed upon monthly fee per subscriber regardless of the net sales, while others earn 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 and more popular cable networks increases the likelihood of such purchases. As more U.S. cable operators convert their analog customers to digital, channel positioning will become more critical due to the increased channel options on the digital line-up.

QVC's shopping programs are telecast 24 hours a day to, as of September 30, 2005, 91 million homes in the United States. QVC The Shopping Channel reached, as of September 30, 2005, 17 million households in the United Kingdom and the Republic of Ireland and is broadcast live 17 hours a day. QVC's shopping network in Germany reached, as of September 30, 2005, 37 million households throughout Germany and Austria and is broadcast live 24 hours a day. QVC Japan, QVC's joint venture with Mitsui & Co., Ltd., reached, as of September 30, 2005, 16 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. QVC also has one phone center in each of the UK and Japan and two call centers in Germany. QVC also utilizes computerized voice response units, which handle approximately 38% of all orders taken. QVC has seven distribution centers worldwide and is able to ship approximately 85% 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.

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

Ownership Interest. We have an approximate 98% ownership interest in QVC. The QVC management team owns the remaining interest.

IAC/Interactive Corp

IAC/InterActiveCorp is a multi-brand video and on-line commerce company transacting business worldwide via the Internet, television and the telephone. IAC's portfolio of companies collectively enables direct-to-consumer transactions across many areas, including home shopping, ticketing, personals, travel, teleservices and local services.

IAC consists of the following sectors:

- Retailing, which includes HSN U.S., HSN International and Cornerstone Brands, Inc.;
- Services, which includes Ticketmaster, Lending Tree and its affiliated brands and businesses, and service outsourcers, including Precision Response Corporation;
- Media and Advertising, which includes Ask Jeeves, Inc.; and
- Membership and Subscriptions, which includes match.com, Entertainment Publications, which promotes merchants through consumer savings and Interval International, which offers services to time share vacation owners.

IAC's businesses largely act as intermediaries between suppliers and consumers, aggregating supply from a variety of sources and capturing consumer demand across a variety of channels

Ownership Interest. We indirectly own an approximate 21% equity interest and 53% voting interest in IAC. We have entered into governance arrangements pursuant to which we have granted Mr. Barry Diller, Chairman of the Board and Chief Executive Officer of IAC, sole voting control of our shares of IAC. IAC's board of directors is currently comprised of eleven members. Through our governance arrangements we have the right to appoint two additional directors to IAC's board.

The Capital Group

The following table sets forth information concerning our more significant businesses, business affiliates and holdings that will initially be attributed to the Capital Group. We hold these assets either directly or indirectly through partnerships, joint ventures, common stock investments or instruments convertible into or exchangeable for common stock. Ownership percentages in the table are approximate, calculated as of September 30, 2005, and, where applicable and, except as otherwise noted, assume conversion to common equity by us and, to the extent the necessary information is known by us, other holders. In some cases, ownership interests may be subject to buy/sell procedures, repurchase rights or dilution, and our voting interest may be different than our ownership interest.

Entity	Business Description	Interest
Consolidated Subsidiaries		
Starz Entertainment Group LLC	Provider of premium movie networks and programming distributed by cable, direct-to-home satellite and other distribution media providers in the United States.	100%
On Command Corporation	Provider of in-room video entertainment and information services to hotels, motels and resorts in the United States.	100%
OpenTV Corp. (NASDAQ: OPTV)	Provider of technology, content and applications, and services that enable digital television network operators to deliver and manage interactive television services.	31%(1)
TruePosition, Inc.	Developer and marketer of technology for locating wireless phones and other wireless devices, enabling wireless carriers, application providers and other enterprises to provide E-911 and other location-based services to mobile users worldwide.	89% (common equity) 100% (preferred stock)
Business Affiliates		
Courtroom Television Network LLC	Owner and operator of Court TV, a basic cable network that provides informative and entertaining programming based on the American legal system.	50%
GSN, LLC	Owner and operator of GSN, a basic cable network that provides game-related programming and interactive game playing.	50%
Expedia, Inc.	Provider of travel products and services to leisure and corporate travelers in the U.S. and abroad through a diversified portfolio of brands.	20%
WildBlue Communications, Inc.	Developer and provider of high speed Internet and data services to rural residential and small business customers.	32%

Investments

News Corporation (NYSE: NWS)	Diversified international media and entertainment company with operations in filmed entertainment, television, cable network programming, direct broadcast satellite television, magazines and inserts, newspapers, book publishing and other.	16%
Time Warner Inc. (NYSE: TWX)	Diversified media and entertainment company with operations in Internet services, cable, filmed entertainment, television and cable network programming and publishing.	4%
Sprint Nextel Corporation (NYSE: S)	Provider of communications products and services, including wireless, long-distance voice and data transport, and internet protocol.	3%
Motorola, Inc. (NYSE: MOT)	Provider of wireless, broadband, and automotive communications technologies.	3%
Viacom, Inc.(2) (NYSE: VIAb)	Diversified media and entertainment company with operations in television, cable, radio, outdoor advertising, Internet, filmed entertainment and publishing.	Less than 1%
IDT Corporation (NYSE: IDT-C)	Multinational telecommunications, entertainment and technology company.	17%

(1) We have an approximate 78% voting interest in OpenTV.

(2) Does not reflect the January 2006 separation of Viacom Inc. and CBS Corporation.

Starz Entertainment Group LLC

Starz Entertainment Group LLC, which we refer to as SEG, 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. As of September 30, 2005, SEG owned and operated 14 full-time domestic movie channels, consisting of Starz, primarily a first-run movie service; five channels branded with the Starz name, each of which exhibits movies targeted to a specific audience; Encore, which airs first-run movies and classic contemporary movies; six thematic multiplex channels branded with the Encore name, each of which exhibits movies based upon individual themes; and Movieplex, a "theme by day" channel featuring a different Encore or thematic multiplex channel each day, on a weekly rotation. SEG also offers programming on its Starz On Demand, Encore on Demand, and Movieplex on Demand services, as well as a high definition feed of the Starz channel on StarzHD. In addition, Starz and Starz On Demand are available over the Internet in a subscription package called Starz Ticket. As of September 30, 2005, Starz Entertainment had 181 million subscription units of which approximately 76% were subscription units for the thematic multiplex channels and the remainder were comprised of subscription units for Starz, Encore and Movieplex. Subscription units represent the number of SEG services which are purchased by cable, DTH, telephone, Internet and other distribution media customers.

The majority of SEG's revenue is derived from the delivery of movies to subscribers under long-term affiliation agreements with cable systems and direct broadcast satellite systems, including Comcast Cable, DirecTV, Echostar, Time Warner, Charter Communications, Cox Communications, Adelphia Communications, Cablevision Systems, Insight Communications, Mediacom Communications and the National Cable Television Cooperative. The majority of SEG's affiliation agreements, including its agreements with DirecTV and Echostar, provide for payments based on the number of subscribers that receive SEG's services. SEG also has fixed-rate affiliation agreements with certain of its customers, including its agreement with Comcast Cable, pursuant to which those customers pay a fixed rate regardless of the number of subscribers. SEG's agreement with Comcast requires Comcast to carry the Encore and Thematic Multiplex channels through 2009 and Starz through 2012. SEG's other affiliation agreements expire between now and December 2008. For the year ended December 31, 2004, SEG earned 24%, 24% and 11% of its total revenue from Comcast, DirecTV and Echostar, respectively.

The costs of acquiring rights to programming are SEG's principal expenses. In order to exhibit theatrical motion pictures, SEG enters into agreements to acquire rights from major and independent motion picture producers. As of September 30, 2005, SEG had access to approximately 4,500 movies through long-term licensing agreements. Eighty percent of the first-run output titles available to SEG for airing are available pursuant to exclusive licenses from Hollywood Pictures, Touchstone Pictures, Miramax Films, Disney, Revolution Studios, Universal Studios, New Line Cinema and Fine Line Cinema. SEG also has exclusive rights to air first-run output from four independent studios and has licensed the exclusive rights to first-run output from Sony's Columbia Pictures, Screen Gems and Sony Pictures Classics for pay television availabilities beginning on January 1, 2006. SEG's agreements with Universal Studios, New Line Cinema, and Fine Line Cinema expire December 31, 2005 for pay television availabilities. Its remaining output agreements expire between 2006 and 2011, with extensions, at the option of the respective studio, potentially extending the expiration date of certain of these agreements to 2014.

SEG uplinks its programming to ten transponders on three domestic communications satellites. SEG leases its transponders under long-term lease agreements. At December 31, 2004, SEG's transponder leases had termination dates ranging from 2018 to 2021. SEG transmits to these transponders from its uplink center in Englewood, Colorado.

Ownership Interest. SEG is our wholly-owned subsidiary.

On Command Corporation

On Command Corporation is a leading provider (based on number of hotel rooms served) of in-room video entertainment and information services to hotels, motels and resorts (which we collectively refer to as hotels) in the United States. On Command's base of installed rooms was approximately 818,000 rooms at September 30, 2005.

On Command provides in-room video entertainment and information services on two main technology platforms: the OCX video system and the OCV video system. The OCX video system is a digital platform that provides enhanced multimedia applications, including an improved graphical interface for movies and games, digital music, television-based Internet with a wireless keyboard and other guest services. The OCV video system is a video selection and distribution technology platform that allows hotel guests to select, at any time, movies and games through the television sets in their hotel rooms. In addition, both of On Command's platforms provide for in-room viewing of select cable channels (such as HBO, Starz, ESPN, CNN, Disney Channel and Discovery). At September 30, 2005, On Command provided its OCX and OCV video systems in 491,000 and 327,000 rooms, respectively.

The hotels providing On Command's services collect fees from their guests for the use of On Command's services and are provided a commission equal to a negotiated percentage of the net revenue earned by On Command for such usage. The amount of revenue realized by On Command is affected by a variety of factors, including among others, hotel occupancy rates, the "buy rate" or percentage of occupied rooms that buy movies or services, the quality of On Command's pay-per-view movie offerings, business and leisure travel patterns and changes in the number of rooms served. With the exception of December, which is generally On Command's lowest month for revenue, On Command typically does not experience significant variations in its monthly revenue that can be attributed solely to seasonal factors.

On Command primarily provides its services under long-term contracts to hotel corporations, hotel management companies, and individually owned and franchised hotel properties. On Command's services are offered predominantly in the large deluxe, luxury, and upscale hotel categories serving business travelers, such as Fairmont, Four Seasons, Hilton, Hyatt, Marriott, Radisson, Starwood, Six Continents, Wyndham and other select hotels. On Command's contracts with hotels generally provide that On Command will be the exclusive provider of in-room, pay-per-view video entertainment services to the hotel and generally permit On Command to set its prices. On Command's contracts with hotels typically set forth the terms governing On Command's provision of free-to-guest programming as well. At September 30, 2005, contracts covering approximately 40% of On Command's installed rooms had expired, or were scheduled to expire, if not otherwise renewed, during the two-year period ending September 30, 2007. Marriott, Hilton and Hyatt accounted for approximately 35%, 8% and 8% respectively, of On Command's room revenues for the year ended December 31, 2004. These revenue percentages represent all chain affiliations including owned, managed and franchised hotels.

On Command's master contract with Hilton Hotels Corporation expired on April 27, 2000. In October 2000, Hilton announced that it would not be renewing its master contract with On Command. At September 30, 2005, On Command was providing service to approximately 48,000 rooms in 204 hotels owned, managed or franchised by Hilton. Hotel contracts are written at the individual hotel level and expirations will occur over an extended period of time depending on the installation date of the individual hotel. On Command expects that hotels owned by Hilton will not renew their contracts as they expire. Hotels that are managed or franchised by Hilton are not precluded from renewing their contracts with On Command, but On Command cannot predict the number of managed and franchised Hilton hotels that will renew.

Ownership Interest. On Command is our wholly-owned subsidiary.

OpenTV Corp.

OpenTV Corp. provides technology, software, content, applications and professional services that enable digital television network operators to deliver and manage interactive television services on all major digital television platforms cable, satellite and terrestrial in all major geographic areas of the world. OpenTV's software has been embedded and shipped in more than 60 million digital set-top boxes worldwide. OpenTV offers its customers a comprehensive suite of interactive and enhanced television solutions that leverage its proprietary software and technologies and worldwide patent portfolio. OpenTV's core software products enable network operators to manage the creation and delivery of interactive and enhanced television services to their subscribers. OpenTV develops and manages branded television channels that allow viewers to play interactive games, and it offers applications that enable viewers to engage in commerce transactions, retrieve information such as weather reports and sports updates, and engage in other interactive services, including fixed-odds gaming, through their televisions. To complement its technologies and interactive content and applications, OpenTV also offers a full suite of professional engineering and consulting services. These services allow OpenTV to manage various interactive television projects, from discrete integration or development assignments to complete end-to-end digital programming solutions for network operators.

OpenTV derives revenue from (1) royalties from the sale of set-top boxes that incorporate OpenTV software; (2) fees for consulting engagements for set-top box manufacturers, network operators and system integrators and maintenance and support for set-top box manufacturers; (3) channel fees from consumers of the PlayJam interactive games channel who pay to play games and register for prizes; and (4) license fees from the sale of products such as OpenTV Publisher.

While OpenTV is one of the world's leading interactive television companies, the interactive television industry is still in its infancy. The growth of the industry and of OpenTV is highly dependent upon a number of factors, including (i) consumer acceptance of interactive services and products; (ii) deployment of capital by broadband service providers for interactive hardware and software; (iii) acceptance by broadband service providers of OpenTV's interactive technology and products; and (i) continued development of interactive technology, products and services. These factors are not within OpenTV's control and no assurance can be given that interactive television will expand beyond its current state.

Ownership Interest. We own shares of OpenTV's Class A common stock and Class B common stock, representing an approximate 31% equity interest and an approximate 78% voting interest in OpenTV. Each share of OpenTV Class B common stock has 10 votes per share and is convertible into one share of OpenTV Class A common stock, which has one vote per share.

TruePosition, Inc.

TruePosition, Inc. develops and markets technology for locating wireless phones and other wireless devices, enabling wireless carriers, application providers and other enterprises to provide E-911 and other location-based services to mobile users worldwide. "E-911" or "Enhanced 911" refers to an Federal Communications Commission mandate requiring wireless carriers to implement wireless location capability. Cingular Wireless began deploying TruePosition's technology in 2002 and T-Mobile USA began deploying such technology in 2003. As of September 30, 2005, both wireless carriers are actively deploying TruePosition's technology and using the technology for E911. In addition, as of September 30, 2005, three smaller wireless carriers have deployed or started to deploy TruePosition's technology. Although many of the following services have not yet been developed, TruePosition's wireless location technology can also be used to implement a number of commercial location based applications including (1) comfort and security related applications, including child, pet and elderly tracking; (2) convenience/information services such as "concierge" and "personal navigation" which identify and provide directions to the nearest restaurant, ATM, or gas station or allow travelers to obtain other information specific to their location; (3) corporate applications, such as fleet or asset tracking which could enable enterprises to better manage mobile assets to optimize service or cut costs; (4) entertainment/community services such as "friend finder" or "m-dating" which could allow mobile users to create a localized community of people with similar interests and receive notification when another group member is close-by; (5) mobile commerce services which could help users shop or purchase goods or services from the retailer closest to their current location; and (6) safety related applications which could help public or private safety organizations find or track mobile users in need of assistance or help locate stolen property.

TruePosition earns revenue from the sale of hardware and licensing of software required to generate location records 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 not earned revenue from other location-based services, but it could realize such revenue in the future if such services are developed and offered using TruePosition's technology. Substantially all of TruePosition's reported revenues in 2003, 2004 and 2005 were derived from Cingular Wireless. Recognition of revenue earned from T-Mobile is deferred pending delivery of specified elements, which to date have not been delivered.

The TruePosition-Registered Trademark- Finder-TM- system is a passive overlay system designed to enable mobile wireless service providers to determine the location of wireless devices, including cellular and PCS telephones. Using patented time difference of arrival (TDOA) and angle of arrival (AOA) technology, the TruePosition Finder-TM- system calculates the latitude and longitude of a designated wireless telephone or other transmitter and forwards this information in real time to application software. TruePosition technology offerings cover multiple major wireless air interfaces, including Global System Mobile (GSM), Time Division Multiple Access (TDMA), and Advanced Mobile Phone Service (AMPS).

Ownership Interest. We own approximately 89% of the common equity of TruePosition and 100% of the TruePosition preferred stock which had a liquidation preference of $375 million at September 30, 2005.

Courtroom Television Network, LLC

Courtroom Television Network, LLC owns and operates Court TV, a basic cable network that provides informative and entertaining programming focusing on the American legal system. In the daytime, Court TV News airs live trial coverage and legal news. In primetime, Court TV airs original programming including FORENSIC FILES and PSYCHIC DETECTIVES, original movies such as EXONERATED and GUILT BY ASSOCIATION, reality-based documentary specials and off-network series such as LAW AND ORDER: TRIAL BY JURY and COPS. Court TV was launched in 1991, and as of September 30, 2005 had nearly 85 million subscribers. Court TV earns revenue from the sale of advertising on its network, from affiliation agreements with cable television and direct-to-home satellite operators and by licensing its programs for international distribution. At September 30, 2005, Court TV's affiliation agreements have remaining terms of five years and provide for payments based on the number of subscribers that receive Court TV's services. No single distributor represented more than 10% of Court TV's consolidated revenue for 2004.

Ownership Interest. We and Time Warner Entertainment each own 50% of Court Television Network. Pursuant to Court Television Network's operating agreement, no action may be taken with respect to certain material matters without our approval and that of Time Warner Entertainment. Also pursuant to Court Television Network's operating agreement, each member has a right of first offer with respect to any proposed transfer by the other member of its interest in Court Television Network other than to an affiliate of the transferring member. In addition, at any time after January 7, 2006, we may require Time Warner Entertainment to purchase all but not less than all of our ownership interest, and Time Warner Entertainment may require us to sell all but not less than all of our ownership interest, in Court Television Network.

GSN, LLC

GSN, LLC owns and operates GSN. With more than 57 million subscribers as of September 30, 2005, GSN is a basic cable network dedicated to game-related programming and interactive game playing. GSN offers 24-hour cable programming consisting of game shows, casino games, reality series, documentaries and other game-related shows. As of September 30, 2005, GSN featured 133 hours per week of interactive programming, which allows viewers a chance to win prizes by playing along with GSN's televised games. Players can play along using their computers at GSN.com or, in certain markets where available, using their remote control through a digital cable box.

GSN's revenue is derived from the delivery of its programming to subscribers under long-term affiliation agreements with cable systems and direct broadcast satellite systems 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 2008. GSN is currently out of contract with an affiliate that accounts for approximately 25% of GSN's current subscriber base, and is in negotiations for the renewal of such contract. For the year ended December 31, 2004, GSN earned 11% of its total revenue from DirectTV.

Ownership Interest. We and Sony Pictures Entertainment, a division of Sony Corporation of America, which is a subsidiary of Sony Corporation, each own 50% of GSN, 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.

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, Hotels.com, Hotwire, Expedia Corporate Travel, Classic Custom Vacations 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.

Ownership Interest. We indirectly own an approximately 20% equity interest and 52% voting interest in Expedia. We have entered into governance arrangements pursuant to which we have granted Mr. Barry Diller, Chairman of the Board and Senior Executive of Expedia, sole voting control of our shares of Expedia. Through our governance arrangements we have the right to appoint and have appointed two of the nine members of Expedia's board of directors.

WildBlue Communications, Inc.

WildBlue Communications, Inc. delivers two-way broadband Internet access via satellite to homes and small businesses in small cities and rural areas in the United States using a 26-inch satellite minidish equipped with both a transmitter and receiver for two-way satellite connectivity to the Internet.

WildBlue generates revenue by charging subscription fees for its Internet access services as well as fees for equipment sales and related installation charges.

Ownership Interest We own an approximate 32% equity interest in WildBlue.

Other Investments

We have significant investments and related derivative positions in the public companies described below. We view these investments as financial assets that we can monetize to generate cash for debt repayments, stock buybacks or additional investments.

News Corporation. News Corp. is a diversified international media and entertainment company with operations in eight industry segments, including filmed entertainment, television, cable network programming, direct broadcast satellite television, magazines and inserts, newspapers, book publishing and other. News Corp.'s activities are conducted principally in the United States, Continental Europe, the United Kingdom, Asia, Australia and the Pacific Basin. News Corp. is a holding company that conducts all of its activities through subsidiaries and affiliates. Its principal subsidiaries and affiliates are Fox Entertainment Group, Inc., Twentieth Century Fox Film Corporation, Fox Television Holdings, Inc., Fox Broadcasting Company, Fox Sports Networks, Inc., NDS Group plc, News America Marketing In-Store Services, Inc., News America Marketing FSI, Inc., News International Limited, News Limited, HarperCollins Publishers, Inc., HarperCollins Publishers Limited, STAR Group Limited, BSkyB and The DIRECTV Group. We own shares representing an approximate 16% equity interest and an approximate 18% voting interest in News Corporation.

Time Warner Inc. Time Warner, Inc. is a media and entertainment company operating in five segments: America Online, Inc. (AOL), Cable, Filmed Entertainment, Network, and Publishing. The AOL segment provides interactive services, Web brands, Internet technologies, and on-line commerce services in the United States and Europe. Time Warner's cable segment offers video, high-speed data, and digital phone services. Its video products include digital video, video-on-demand, subscription-video-on-demand, and digital video recorders. The company's digital phone services consist of easy-to-use package of video, high-speed data, and voice services. The filmed entertainment segment comprises Warner Bros. Entertainment Group, which operates in film, television, and home video businesses, combined with a film library and global distribution infrastructure; and New Line Cinema Corporation that creates and distributes theatrical motion pictures. As of September 30, 2005, its library included more than 6,600 theatrical titles, and 54,000 live action and animated television titles. The networks segment include Turner Broadcasting System, Inc. (Turner), Home Box Office, and The WB Television Network (The WB Network). The company's Turner networks include TBS, TNT, CNN, CNN Headline News, and Cartoon Network channels. The WB Network operates as a broadcast television network. Publishing segment publishes magazines through Time, Inc. and books through Time Warner Book Group, Inc. This segment also sells home decor products through approximately 35,000 independent consultants. It publishes approximately 155 magazines, including People, Sports Illustrated, In Style, Southern Living, Time, Entertainment Weekly, Fortune, Real Simple, What's on TV, and Cooking Light. The company's films include The Lord of the Rings trilogy, the Harry Potter series, Million Dollar Baby, and The Polar Express. Time Warner, Inc. is headquartered in New York City. We own an approximate 4% equity interest in Time Warner.

Sprint Nextel Corporation. Sprint Nextel offers a comprehensive suite of wireless and wireline communications products and services that are designed to meet the particular needs of its targeted customer groups: consumer, business and government customers. Its operations are divided into three lines of business: Wireless, Local and Long Distance. Sprint Nextel owns extensive wireless networks and a global long distance backbone. In the 2005 third quarter, a subsidiary of Sprint merged with Nextel, making Sprint Nextel one of the three largest wireless companies in the United States based on the number of wireless subscribers. We own an approximate 4% equity interest in Sprint Nextel.

Motorola, Inc. Motorola, Inc. provides mobility products and solutions across broadband, embedded systems, and wireless networks worldwide. It operates in four segments: Mobile Devices, Networks, Government and Enterprise Mobility Solutions, and Connected Home Solutions. Mobile Devices designs, manufactures, sells, and services wireless subscriber and server equipment for cellular systems, portable energy storage products and systems, servers and software solutions, and related software and accessory products. Networks segment designs, manufactures, sells, installs, and services wireless infrastructure communication systems. It offers end-to-end wireless networks, including radio base stations; base site controllers; associated software and services; mobility soft switching; application platforms; and third-party switching for CDMA, GSM, iDEN, and UMTS technologies. It also offers embedded communications computing platforms; fiber-to-the-premise and fiber-to-the-node transmission systems supporting high-speed data, video, and voice; and wireless broadband systems. Motorola's Government and Enterprise Mobility Solutions segment provides analog and digital two-way radio, voice, and data communications products and systems to public-safety, government, utility, transportation, and other markets, as well as offers integrated information management, mobile, and biometric applications and services. It also offers automotive electronics systems and telematics systems. Its Connected Home Solutions segment offers digital systems and set-top terminals for cable TV and broadcast networks; cable modems and cable modem termination systems, and IP-based telephony products; hybrid fiber coaxial network transmission systems used by cable TV operators; digital satellite TV systems; and direct-to-home satellite networks and private networks. We own an approximate 3% equity interest in Motorola.

Viacom, Inc. As of September 30, 2005, Viacom, Inc. was a diversified worldwide entertainment company and operated in a number of different segments, including cable and television networks, radio stations, outdoor advertising, motion picture and music production, book publishing and theme park operation. Also, as of September 30, 2005, Viacom had announced its intention to change its name to CBS Corporation and spin off its cable networks and entertainment brands into a new public company named Viacom, Inc. As a result of the spin off, which occurred on January 1, 2006, we currently own less than 1% of each of Viacom Inc.'s and CBS Corporation's outstanding shares.

IDT Corporation. IDT is a multinational telecommunications, entertainment and technology company. IDT's primary telecommunications offerings are prepaid and rechargeable calling cards, wholesale carrier services and consumer local, long distance and wireless phone services. IDT's entertainment business consists of animated and live-action production operations and home entertainment distribution. IDT also operates various other businesses that are opportunistic or complementary to existing operations. We own an approximate 17% equity interest in IDT. We also own equity interests in one of IDT's operating subsidiaries and one of its holding company subsidiaries. Pursuant to a share purchase agreement with IDT, we are entitled to nominate one member of IDT's board of directors.

Competition

Interactive and Enhanced Television Services

In the U.S. and elsewhere, QVC competes with a number of home shopping services including Home Shopping Network. QVC also competes with other businesses that are engaged in retail merchandising.

The businesses of providing software and related technologies, content and applications and professional services for interactive and enhanced television are highly competitive and rapidly changing. The interactive television technology companies with which OpenTV competes include NDS Group plc., Microsoft Corporation, Liberate Technologies (which recently agreed to sell substantially all of its assets to a joint venture owned by Comcast Corporation and Cox Communications) and Scientific Atlanta. NDS Group plc., a company controlled by News Corp., is expanding into the interactive television platform market and recently extended its market share with the acquisition of Media

Highway from Thomson Multimedia. News Corp. also has a significant ownership interest in BSkyB and Sky Italia, which are two of OpenTV's largest customers, DirecTV and other satellite operators around the world. Companies that develop interactive television content and applications include dedicated applications providers, interactive television technology companies, and independent third parties that develop and provide applications for middleware platforms. Competition is also faced from media companies that have publicly announced interactive television initiatives, such as The Discovery Channel and CNN. In addition, certain network operators such as BSkyB in the United Kingdom have entered into agreements, joint ventures, and other relationships with technology and entertainment companies. We expect competition in the interactive content and applications area to intensify as the general market for interactive television services further develops, particularly in the case of independent third parties that have the ability to develop applications for middleware platforms at relatively modest expense through the use of applications development tools.

In the interactive television professional services area, competition is faced primarily from third party system integrators, as well as from internal information technology staffs at our network operator customers. Other interactive television technology providers also provide a level of professional services in conjunction with their product offerings.

There are numerous providers of in-room entertainment services to the hotel industry. Market participants include, but are not limited to, (i) other full service in-room providers, (ii) cable television companies, (iii) direct broadcast satellite services, (iv) television networks and programmers, (v) Internet service providers, (vi) broadband connectivity companies, (vii) other telecommunications companies and (viii) certain hotels. In addition, On Command's services compete for a guest's time and entertainment resources with other forms of entertainment and leisure activities. On Command anticipates that it will continue to face substantial competition from traditional as well as new competitors. Many of On Command's potential competitors are developing ways to use their existing infrastructure to provide in-room entertainment and/or informational services. Certain of these competitors are already providing guest programming services and are beginning to provide video-on-demand, Internet and high-speed connectivity services to hotels.

Programming Distribution Services

The business of distributing programming for cable and satellite television is highly competitive, both in the United States and in foreign countries. The programming companies in which we have interests directly 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, our programming services and our business affiliates' programming services compete, in varying degrees, 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. The programming companies in which we have interests also compete, to varying degrees, for creative talent and programming content. In addition, SEG relies on third parties for all of its programming content whereas SEG's competitors produce some of their own programming content. Our management believes that important competitive factors include the prices charged for programming, the quantity, quality and variety of the programming offered and the effectiveness of marketing efforts.

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 that carry 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, 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 multi-channel video programming distributors (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 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 multi-channel video programming distributors. Further, the 1992 Cable Act requires that such affiliated programmers make their programming services available to cable operators and competing multi-channel video programming distributors such as multi-channel multi-point distribution systems, which we refer to as MMDS, and direct broadcast satellite 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 attributable interest to the program access rules.

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 multi-channel video programming distributors (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 to 40% of the first 75 activated channels on each of the cable operator's systems. The rules provided for the use of two additional channels or a 45% limit, whichever is greater, provided that the additional channels carried minority-controlled programming services. The regulations also grandfathered existing carriage arrangements that exceeded the channel limits, but required new channel capacity to be devoted to unaffiliated programming services until the system achieved compliance with the regulations. These channel occupancy limits applied only up to 75 activated channels on the cable system, and the rules did not apply to local or regional programming services. However, on March 2, 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 on May 17, 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. The FCC presently is conducting a rulemaking proceeding regarding this ownership limitation and its ownership attribution standards.

The FCC's rules also generally had prohibited common ownership of a cable system and broadcast television station with overlapping service areas. On February 19, 2002, the United States Court of Appeals for the District of Columbia Circuit held that the FCC's decision to retain the cable/broadcast cross-ownership rule was arbitrary and capricious and vacated the rule. The FCC did not seek Supreme Court review of this decision or initiate a new rulemaking proceeding. The FCC rules continue to prohibit common ownership of a cable system and MMDS with overlapping service areas.

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 companies in which we have interests by limiting the carriage of such services in cable systems with limited channel capacity. On January 18, 2001, the FCC adopted rules relating to the cable carriage of digital television signals. Among other things, the rules clarify that a digital-only television station can assert a right to analog or digital carriage on a cable system. The FCC initiated a further proceeding to determine whether television stations may assert rights to carriage of both analog and digital signals during the transition to digital television and to carriage of all digital signals. On February 10, 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 have sought reconsideration of the FCC's decision and may seek judicial review or legislative change of the FCC's decision.

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 will 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 are expected to incur significant 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 "a la carte", i.e. on an individual or small tier basis. The Media Bureau released a report on November 19, 2004, which concluded that a 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 late 2005, the Chairman of the FCC testified before Congress that this report was flawed and that a new report would conclude that a la carte sales could be in the best interests of consumers. Although the FCC cannot mandate a la carte sales, its endorsement of the concept could encourage Congress to consider proposals to mandate a la carte sales or otherwise seek to impose greater regulatory controls on how cable programming is sold. The programming companies that distribute their services in tiers or packages of programming services would experience decreased distribution if a la carte carriage were mandated.

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. The programming companies in which we have interests generally have obtained the necessary rights through separate agreements with ASCAP, BMI and SESAC, which have repudiated agreements with some programmers that include new rate structures and may require retroactive rate increases. Certain of the programming companies also have obtained licenses for music performance rights outside the United States through various licensing agencies located in the foreign countries in which their services are distributed.

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 the cable industry. The FCC also regulates the earth stations uplinking to and/or downlinking from such satellites.

Internet Services

The Internet companies in which we have interests are subject, both directly and indirectly, to various laws and governmental regulations relating to their respective businesses. There are currently few laws or regulations directly applicable to access to or commerce on commercial online services or the Internet. For example, the Digital Millennium Copyright Act, enacted into law in 1998, protects certain qualifying online service providers from copyright infringement liability, and, under the Communications Decency Act, an Internet service provider will not be treated as the publisher or speaker of any information provided by another information content provider. Legislation enacted by Congress in 2004 extended the moratorium on state and local taxes on Internet access and commerce until November 1, 2007.

Other Internet-related laws and regulations may cover issues such as user privacy, defamatory speech, copyright infringement, pricing and characteristics and quality of products and services. The adoption of such laws or regulations in the future 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.

Other Regulation

We also have significant ownership interests on a cost basis in other entities, such as News Corporation and Sprint Nextel Corporation, which are extensively regulated. For example, the broadcast stations owned and the direct broadcast satellite service controlled by News Corp. are subject to a variety of FCC regulations. 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 and satellite licensees 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.

Properties

We own our corporate headquarters in Englewood, Colorado. Ownership of our corporate headquarters has been attributed to the Capital Group; however, we intend to allocate some of the costs of our corporate headquarters to the Interactive Group. All of our other real or personal property is owned or leased through our subsidiaries and business affiliates.

Interactive Group

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 and Bochum, Germany, as well as a call center and warehouse in Knowsley, United Kingdom. QVC owns a warehouse in Hucklehoven, Germany and distribution centers in Lancaster, Pennsylvania, Suffolk, Virginia and Rocky Mount, North Carolina. To supplement the facilities it owns, QVC also leases various facilities in the United States, United Kingdom, Germany and Japan for retail outlet stores, office space, warehouse space and call center locations.

Capital Group

On Command leases its corporate headquarters in Denver, Colorado. It also leases 77,000 square feet and 42,000 square feet of light manufacturing and storage space in Denver, Colorado and San Jose, California, respectively. On Command also has a number of small leased facilities in the United States, Canada and Mexico.

SEG owns its corporate headquarters in Englewood, Colorado. In addition, SEG leases office space for its sales staff at 6 locations around the United States.

Other Subsidiaries and Affiliates

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.

Employees

As of September 30, 2005, we had approximately 60 corporate employees, most of whom are expected to perform work for and on behalf of both the Interactive Group and the Capital Group. We believe that our employee relations are good.

ANNEX B: FINANCIAL INFORMATION

PART 1 HISTORICAL CONSOLIDATED FINANCIAL STATEMENTS

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2005	December 31, 2004*
	amounts in millions	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,709	1,387
Trade and other receivables, net	937	1,035
Inventory, net	763	712
Derivative instruments (note 7)	999	827
Other current assets	693	615
Total current assets	5,101	4,576
Investments in available-for-sale securities and other cost investments, including $1,501 million and $907 million pledged as collateral for share borrowing arrangements (note 5)	18,442	21,847
Long-term derivative instruments (note 7)	1,076	1,601
Investments in affiliates, accounted for using the equity method	1,926	784
Property and equipment, at cost	1,711	1,637
Accumulated depreciation	(595)	(504)
	1,116	1,133
Intangible assets not subject to amortization:		
Goodwill (note 6)	6,977	6,938
Trademarks	2,385	2,385
	9,362	9,323
Intangible assets subject to amortization, net	4,147	4,436
Other assets, at cost, net of accumulated amortization	773	765
Assets of discontinued operations (note 4)		5,716
Total assets	$ 41,943	50,181

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Unaudited)

	September 30, 2005	December 31, 2004*
	amounts in millions	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 525	424
Accrued liabilities	633	788
Accrued stock-based compensation	124	235
Program rights payable	132	200
Derivative instruments (note 7)	2,059	1,179
Current portion of debt (note 8)	1,607	10
Other current liabilities	322	275
Total current liabilities	5,402	3,111
Long-term debt (note 8)	6,455	8,566
Long-term derivative instruments (note 7)	1,169	1,812
Deferred income tax liabilities	8,644	9,701
Other liabilities	947	801
Liabilities of discontinued operations (note 4)		1,305
Total liabilities	22,617	25,296
Minority interests in equity of subsidiaries	292	299
Stockholders' equity (note 9):		
Preferred stock, $.01 par value. Authorized 50,000,000 shares; no shares issued		
Series A common stock, $.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 2,681,420,356 shares at September 30, 2005 and 2,678,895,158 shares at December 31, 2004	27	27
Series B common stock, $.01 par value. Authorized 400,000,000 shares; issued 131,062,825 shares at September 30, 2005 and December 31, 2004	1	1
Additional paid-in-capital	29,180	33,765
Accumulated other comprehensive earnings, net of taxes	3,183	4,227
Unearned compensation	(40)	(64)
Accumulated deficit	(13,192)	(13,245)
Series B common stock held in treasury, at cost (10,000,000 shares)	(125)	(125)
Total stockholders' equity	19,034	24,586
Commitments and contingencies (note 10)		
Total liabilities and stockholders' equity	$ 41,943	50,181

* See note 4.

See accompanying notes to condensed consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004***	**2005**	**2004***
	amounts in millions, except per share amounts			
Revenue:				
Net sales from electronic retailing	$ 1,475	1,292	4,418	3,864
Communications and programming services	375	340	1,092	1,015
	1,850	1,632	5,510	4,879
Operating costs and expenses:				
Cost of sales electronic retailing services	942	814	2,778	2,429
Operating	399	333	1,155	961
Selling, general and administrative ("SG&A")	153	165	491	491
Stock-based compensation SG&A (note 2)	15	6	32	16
Litigation settlements				(42)
Depreciation and amortization	162	162	484	484
	1,671	1,480	4,940	4,339
Operating income	179	152	570	540
Other income (expense):				
Interest expense	(149)	(150)	(444)	(448)
Dividend and interest income	56	41	121	114
Share of earnings of affiliates, net	4		15	5
Realized and unrealized gains (losses) on financial instruments, net (note 7)	(332)	239	148	(344)
Gains (losses) on dispositions of assets, net		389	(363)	621
Nontemporary declines in fair value of investments	(68)		(68)	(128)
Other, net	(5)	(38)	(35)	(23)
	(494)	481	(626)	(203)
Earnings (loss) from continuing operations before income taxes and minority interests	(315)	633	(56)	337
Income tax benefit (expense)	233	(274)	110	(236)
Minority interests in earnings of subsidiaries	(5)		(28)	(5)
Earnings (loss) from continuing operations	(87)	359	26	96
Discontinued operations, net of taxes (note 4)	(7)	13	27	(48)
Net earnings (loss)	$ (94)	372	53	48
Earnings (loss) per common share (note 3):				

	Three Months Ended September 30,		Nine Months Ended September 30,	
Basic and diluted earnings (loss) from continuing operations	$ (.03)	.13	.01	.03
Discontinued operations			.01	(.01)
Basic and diluted earnings (loss)	$ (.03)	.13	.02	.02

*

See note 4.

See accompanying notes to condensed consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004***	**2005**	**2004***
	amounts in millions			
Net earnings (loss)	$ (94)	372	53	48
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	(10)	22	21	(1)
Recognition of previously unrealized foreign currency translation losses			312	
Unrealized holding gains (losses) arising during the period	159	(1,008)	(1,149)	(621)
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	41	(1)	(19)	(36)
Reclass unrealized gain on available-for-sale security to equity method investment	(197)		(197)	
Other comprehensive earnings (loss) from discontinued operations		1	(7)	(63)
Other comprehensive loss	(7)	(986)	(1,039)	(721)
Comprehensive loss	$ (101)	(614)	(986)	(673)

* See note 4.

See accompanying notes to condensed consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004*
	amounts in millions	
Cash flows from operating activities:		
Earnings from continuing operations	$ 26	96
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	484	484
Stock-based compensation	32	16
Payments of stock-based compensation	(96)	(1)
Noncash interest expense	75	72
Share of earnings of affiliates, net	(15)	(5)
Realized and unrealized losses (gains) on financial instruments, net	(148)	344
Losses (gains) on disposition of assets, net	363	(621)
Nontemporary declines in fair value of investments	68	128
Minority interests in earnings of subsidiaries	28	5
Deferred income tax expense (benefit)	(304)	69
Other noncash charges, net	86	14
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Receivables	87	56
Inventory	(63)	(196)
Other current assets	(128)	(303)
Payables and other current liabilities	65	219
Net cash provided by operating activities	560	377
Cash flows from investing activities:		
Cash proceeds from dispositions	54	497
Premium proceeds from origination of derivatives	437	127
Net proceeds from settlement of derivatives	318	161
Capital expended for property and equipment	(158)	(137)
Net sales (purchases) of short term investments	(73)	136
Investments in and loans to equity affiliates		(21)
Investments in and loans to cost investees		(931)
Cash paid for acquisitions, net of cash acquired	(5)	(93)
Repayment of LMI note		117
Other investing activities, net	(7)	(15)
Net cash provided (used) by investing activities	566	(159)
Cash flows from financing activities:		
Borrowings of debt	861	
Repayments of debt	(1,459)	(445)
Repurchases of subsidiary common stock	(62)	(110)
Purchases of Liberty common stock		(547)
Other financing activities, net	62	41
Net cash used by financing activities	(598)	(1,061)
Net cash provided to discontinued operations (note 4)	(206)	(864)
Net increase (decrease) in cash and cash equivalents	322	(1,707)

	Nine Months Ended September 30,	
Cash and cash equivalents at beginning of period	1,387	2,966
Cash and cash equivalents at end of period	$ 1,709	1,259

*

See note 4.

See accompanying notes to condensed consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

Nine months ended September 30, 2005

	Preferred Stock	Common Stock Series A	Common Stock Series B	Additional Paid-in Capital	Accumulated Other Comprehensive Earnings, Net	Unearned Compensation	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
	amounts in millions								
Balance at January 1, 2005	$	27	1	33,765	4,227	(64)	(13,245)	(125)	24,586
Net earnings							53		53
Other comprehensive loss					(1,039)				(1,039)
Distribution to stockholders for spin off of Discovery Holding Company				(4,600)	(5)				(4,605)
Issuance of common stock for investment in available-for-sale security				14					14
Issuance of common stock upon exercise of stock options				9					9
Amortization of deferred compensation						23			23
Cancellation of restricted stock				(1)		1			
Stock compensation for Liberty options held by Liberty Global, Inc. ("LGI") employees				3					3
Stock compensation for LGI options held by Liberty employees				9					9
Adjustment to spin off of LGI				(26)					(26)
Other				7					7
Balance at September 30, 2005	$	27	1	29,180	3,183	(40)	(13,192)	(125)	19,034

See accompanying notes to condensed consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(Unaudited)

(1) Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Liberty Media Corporation 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 holding company which, through its ownership of interests in subsidiaries and other companies, is primarily engaged in the electronic retailing, media, communications and entertainment industries in the United States, Europe and Asia.

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with 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, 2004.

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) the fair value of its derivative instruments and (iii) its assessment of other-than-temporary declines in fair value of its investments to be its most significant estimates.

Liberty holds a number of 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 2005 presentation.

(2) Stock-Based Compensation

The Company has granted to certain of its employees options, stock appreciation rights ("SARs") and options with tandem SARs (collectively, "Awards") to purchase shares of Liberty Series A and Series B common stock.

The Company accounts for compensation expense related to its Awards pursuant to the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB Opinion No. 25"). All of the Company's Awards are accounted for as variable plan awards, and compensation is recognized based upon the percentage of the options that are vested and the difference between the market price of the underlying common stock and the exercise price of the options at the balance sheet date. The Company accounts for QVC stock options using fixed-plan accounting. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*," ("Statement 123") to its options. Compensation expense for SARs and options with tandem SARs is the same under APB Opinion No. 25 and Statement 123. Accordingly, no pro forma adjustment for such Awards is included in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
	amounts in millions, except per share amounts			
Earnings (loss) from continuing operations	$ (87)	359	26	96
Add stock-based compensation as determined under the intrinsic value method, net of taxes	1		3	2
Deduct stock-based compensation as determined under the fair value method, net of taxes	(28)	(12)	(46)	(34)
Pro forma earnings (loss) from continuing operations	$ (114)	347	(17)	64
Basic and diluted earnings (loss) from continuing operations per share:				
As reported	$ (.03)	.13	.01	.03
Pro forma	$ (.04)	.12	(.01)	.02

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payments*" ("Statement 123R"). Statement 123R, which is a revision of Statement 123 and supersedes APB Opinion No. 25, establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on transactions in which an entity obtains employee services. Statement 123R generally requires companies to measure the cost of employee services received in exchange for an award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the award, and to recognize that cost over the period during which the employee is required to provide service (usually the vesting period of the award). Statement 123R also requires companies to measure the cost of employee services received in exchange for an award of liability instruments (such as stock appreciation rights) based on the current fair value of the award, and to remeasure the fair value of the award at each reporting date.

Public companies are required to adopt Statement 123R as of the beginning of the registrant's next fiscal year, or January 1, 2006 for calendar-year companies, such as Liberty. Accordingly, the provisions of Statement 123R will affect the accounting for all awards granted, modified, repurchased or cancelled after January 1, 2006. The accounting for awards granted, but not vested, prior to January 1, 2006 will also be impacted. The provisions of Statement 123R allow companies to adopt the standard on a prospective basis or to restate all periods for which Statement 123 was effective. Liberty expects to adopt Statement 123R on a prospective basis, and will include in its financial statements for periods that begin after December 31, 2005 pro forma information as though the standard had been adopted for all periods presented.

While Liberty has not yet quantified the impact of adopting Statement 123R, it believes that such adoption could have a significant impact on its operating income and net earnings in the future.

(3) Earnings (Loss) Per Common Share

Basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented. The basic EPS calculation is based on 2,796 million and 2,824 million for the three months ended September 30, 2005 and 2004, respectively, and 2,795 million and 2,906 million weighted average shares outstanding for the nine months ended September 30, 2005 and 2004, respectively. The diluted EPS calculation for the nine months ended September 30, 2005 and 2004 includes 12 million and 18 million dilutive securities, respectively. However, due to the relative insignificance of these dilutive securities, their inclusion does not impact the EPS amount as reported in the accompanying condensed consolidated statement of operations. Excluded from diluted EPS for the nine months ended September 30, 2005 are 66 million potential common shares because their inclusion would be anti-dilutive.

(4) Discontinued Operations

Spin Off of Liberty Media International, Inc. ("LMI")

On June 7, 2004 (the "LMI Spin Off Date"), Liberty completed the spin off (the "LMI Spin Off") of its wholly-owned subsidiary, LMI (which is now a wholly-owned subsidiary of Liberty Global, Inc.), to its shareholders. Substantially all of the assets and businesses of LMI were included in Liberty's former International Group segment. In connection with the LMI Spin Off, holders of Liberty common stock on June 1, 2004 (the "Record Date") received 0.05 of a share of LMI Series A common stock for each share of Liberty Series A common stock owned at 5:00 p.m. New York City time on the Record Date and 0.05 of a share of LMI Series B common stock for each share of Liberty Series B common stock owned at 5:00 p.m. New York City time on the Record Date. The LMI Spin Off is intended to qualify as a tax-free spin off. For accounting purposes, the LMI Spin Off is deemed to have occurred on June 1, 2004, and no gain or loss was recognized by Liberty in connection with the LMI Spin Off.

In addition to the assets in Liberty's International Group operating segment, Liberty also contributed certain monetary assets to LMI in connection with the LMI Spin Off.

DMX Music

During the fourth quarter of 2004, the executive committee of the board of directors of Liberty approved a plan to dispose of Liberty's approximate 56% ownership interest in Maxide Acquisition, Inc. (d/b/a DMX Music, "DMX"). DMX is principally engaged in programming, distributing and marketing digital and analog music services to homes and businesses and was included in Liberty's former Networks Group operating segment. On February 14, 2005, DMX commenced proceedings under Chapter 11 of the United States Bankruptcy Code. As a result of marketing efforts conducted prior to the bankruptcy filing, DMX entered into an arrangement, which was subject to the approval by the Bankruptcy Court, to sell substantially all of its operating assets to an independent third party. Other prospective buyers had an opportunity to submit offers to purchase all or a portion of those assets by May 6, 2005. On May 9, 2005, a public auction was conducted at which the aforementioned independent third party was the successful bidder. The results of that auction were approved by the Bankruptcy Court on May 10, 2005. On May 16, 2005, the Bankruptcy Court entered its written order approving the transaction, and the sale transaction has been consummated. As a result of the DMX bankruptcy filing, Liberty has deconsolidated DMX. For financial reporting purposes such deconsolidation was deemed to be effective January 1, 2005.

Spin Off of Discovery Holding Company ("DHC")

On July 21, 2005, Liberty completed the spin-off (the "DHC Spin Off") of a newly formed subsidiary, Discovery Holding Company. DHC's assets were comprised of Liberty's 100% ownership interest in Ascent Media Group, LLC ("Ascent Media"), Liberty's 50% ownership interest in Discovery Communications, Inc. ("Discovery") and $200 million in cash. In connection with the DHC Spin Off, holders of Liberty common stock on July 15, 2005 received 0.10 of a share of DHC Series A common stock for each share of Liberty Series A common stock owned and 0.10 of a share of DHC Series B common stock for each share of Liberty Series B common stock owned. Upon completion of this transaction, DHC is a separate publicly traded company. This transaction has been accounted for at historical cost due to the pro rata nature of the distribution.

The condensed consolidated financial statements and accompanying notes of Liberty have been prepared to reflect LMI, DMX and DHC as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of LMI (for periods prior to the LMI Spin Off Date), DMX (for periods prior to January 1, 2005) and DHC (for all periods) have been excluded from the respective captions in the accompanying condensed 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 condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2005	**2004**
	amounts in millions	
Revenue	$ 390	1,549
Earnings (loss) before income taxes and minority interests	$ 48	(90)

Certain asset and liability amounts for DHC as of July 21, 2005 are as follows (amounts in millions):

Investment in Discovery	$ 2,982
Goodwill	$ 2,135
Deferred tax liabilities	$ (1,060)

Cash provided to discontinued operations is comprised of the following activities:

	Nine Months Ended September 30,	
	2005	2004
	amounts in millions	
Cash provided by operating activities	$ 31	189
Cash used by investing activities	(47)	(214)
Cash provided by financing activities		996
Change in available cash held by discontinued operations	(190)	(1,835)
Net cash provided to discontinued operations	$ (206)	(864)

(5) Investments in Available-For-Sale Securities and Other Cost Investments

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

	September 30, 2005	December 31, 2004
	amounts in millions	
News Corporation	$ 8,163	9,667
IAC/InterActiveCorp ("IAC")(1)	1,755	3,824
Time Warner Inc.(2)	3,100	3,330
Sprint Corporation(3)	2,199	2,342
Motorola, Inc.(4)	1,630	1,273
Viacom, Inc.	501	552
Other available-for-sale equity securities(5)	645	471
Other available-for-sale debt securities(6)	377	304
Other cost investments and related receivables	83	87
	18,453	21,850
Less short-term investments	(11)	(3)
	$ 18,442	21,847

(1) Effective August 9, 2005, IAC completed the spin-off of its subsidiary, Expedia, Inc. ("Expedia"). Shareholders of IAC, including Liberty, received one share of Expedia for each share of IAC owned. Subsequent to the spin-off of Expedia, Liberty owns approximately 21% of the outstanding Expedia common stock and has two out of nine members of Expedia's board of directors, and accordingly, is accounting for this investment using the equity method of accounting. Liberty allocated its pre-spin off carrying value in IAC between IAC and Expedia based on the relative

trading prices of IAC and Expedia. Unrealized holding gains included in the carrying value allocated to Expedia were reversed as part of this allocation.

(2) Includes $164 million and $176 million of shares pledged as collateral for share borrowing arrangements at September 30, 2005 and December 31, 2004, respectively.

(3) Includes $48 million of shares pledged as collateral for share borrowing arrangements at September 30, 2005.

(4) Includes $1,144 million and $654 million of shares pledged as collateral for share borrowing arrangements at September 30, 2005 and December 31, 2004, respectively.

(5) Includes $145 million and $77 million of shares pledged as collateral for share borrowing arrangements at September 30, 2005 and December 31, 2004, respectively.

(6) At September 30, 2005, other available-for-sale debt securities include $356 million of investments in third-party marketable debt securities held by Liberty parent and $21 million of such securities held by subsidiaries of Liberty. At December 31, 2004, such investments aggregated $276 million and $28 million, respectively.

Unrealized Holding Gains and Losses

Unrealized holding gains and losses related to investments in available-for-sale securities are summarized below.

	September 30, 2005		December 31, 2004	
	Equity Securities	Debt Securities	Equity Securities	Debt Securities
	amounts in millions			
Gross unrealized holding gains	$ 5,419	16	7,292	19
Gross unrealized holding losses	$ (413)		(15)	

The aggregate fair value of securities with unrealized holding losses at September 30, 2005 was $3,603 million. None of these securities had unrealized losses for more than 12 continuous months.

(6) Intangible Assets

Goodwill

Changes in the carrying amount of goodwill for the nine months ended September 30, 2005 are as follows:

	QVC	Starz Entertainment Group LLC	Other	Total
	amounts in millions			
Balance at January 1, 2005	$ 4,048	1,383	1,507	6,938
Foreign currency translation	33			33
Other			6	6
Balance at September 30, 2005	$ 4,081	1,383	1,513	6,977

Amortizable Intangible Assets

Amortization of intangible assets with finite useful lives was $356 million and $357 million for the nine months ended September 30, 2005 and 2004, respectively. Based on its current amortizable intangible assets, Liberty expects that amortization expense will be as follows for the next five years (amounts in millions):

Remainder of 2005	$	118
2006	$	448
2007	$	405
2008	$	372
2009	$	343

(7) Derivative Instruments

The Company's derivative instruments are summarized as follows:

Type of Derivative		September 30, 2005	December 31, 2004
		amounts in millions	
Assets			
Equity collars	$	1,775	2,016
Put spread collars		232	291
Other		68	121
		2,075	2,428
Less current portion		(999)	(827)
	$	1,076	1,601
Liabilities			
Exchangeable debenture call option obligations	$	988	1,102
Put options		492	445
Equity collars		180	398
Borrowed shares		1,501	907
Other		67	139
		3,228	2,991
Less current portion		(2,059)	(1,179)
	$	1,169	1,812

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

	Nine Months Ended September 30,	
	2005	2004
	amounts in millions	
Change in fair value of exchangeable debenture call option features	$ 114	221
Change in fair value of equity collars	238	(325)
Change in fair value of put options	(47)	(74)
Change in fair value of borrowed shares	(175)	(152)
Change in fair value of put spread collars	7	8
Change in fair value of other derivatives	11	(22)
	$ 148	(344)

(8) Long-Term Debt

Debt is summarized as follows:

	Outstanding Principal September 30, 2005	Carrying Value September 30, 2005	Carrying Value December 31, 2004
		amounts in millions	
Parent company debt:			
Senior notes and debentures			
3.5% Senior Notes due 2006	$ 199	199	513
Floating Rate Senior Notes due 2006	1,398	1,398	2,463
7.875% Senior Notes due 2009	716	711	711
7.75% Senior Notes due 2009	234	235	235
5.7% Senior Notes due 2013	802	800	800
8.5% Senior Debentures due 2029	500	494	495
8.25% Senior Debentures due 2030	959	952	951
Senior exchangeable debentures			
4% Senior Exchangeable Debentures due 2029	869	250	249
3.75% Senior Exchangeable Debentures due 2030	810	230	228
3.5% Senior Exchangeable Debentures due 2031	600	234	231
3.25% Senior Exchangeable Debentures due 2031	559	119	118
0.75% Senior Exchangeable Debentures due 2023	1,750	1,532	1,473
	9,396	7,154	8,467
QVC bank credit facility	800	800	
Other subsidiary debt	108	108	109
Total debt	$ 10,304	8,062	8,576
Less current maturities		(1,607)	(10)
Total long-term debt		$ 6,455	8,566

Parent Company Debt

During the nine months ended September 30, 2005, and pursuant to a previously announced debt reduction plan, Liberty retired $1,379 million principal amount of its parent company debt (primarily comprised of its senior notes) for aggregate cash consideration of $1,392 million plus accrued interest. In connection with these debt retirements, Liberty recognized a loss on early extinguishment of debt of $13 million, which is included in other income (expense) in the accompanying condensed consolidated statement of operations.

QVC Bank Credit Facility

Effective May 20, 2005, QVC entered into a $2 billion bank credit facility (the "QVC Credit Facility"). The QVC Credit Facility is comprised of an $800 million term loan that was drawn at closing, a $400 million U.S. dollar term loan that can be drawn at any time before September 30, 2006, a $400 million multi-currency term loan that can be drawn at any time before September 30, 2006, a $200 million U.S. dollar revolving loan and a $200 million multi-currency revolving loan. The foregoing multi-currency loans can be made, at QVC's option, in U.S. dollars, Japanese yen, U.K. pound sterling or euros. All loans are due and payable on May 20, 2010, and accrue interest, at the option of QVC, at LIBOR plus an applicable margin or the Alternative Base Rate, as defined in the QVC Credit Facility, plus an applicable margin. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments.

Other Subsidiary Debt

Other subsidiary debt at September 30, 2005, is comprised primarily of capitalized satellite transponder lease obligations.

Fair Value of Debt

Liberty estimates the fair value of its debt based on the quoted market prices for the same or similar issues or on the current rate offered to Liberty for debt of the same remaining maturities. The fair value of Liberty's publicly traded debt securities at September 30, 2005 is as follows (amounts in millions):

Fixed rate senior notes	$	1,955
Floating rate senior notes	$	1,410
Senior debentures	$	1,417
Senior exchangeable debentures, including call option obligation	$	3,922

Liberty believes that the carrying amount of its subsidiary debt approximated fair value at September 30, 2005.

(9) Stockholders' Equity

As of September 30, 2005, there were 47.8 million shares of Liberty Series A common stock and 30.0 million shares of Liberty Series B common stock reserved for issuance under exercise privileges of outstanding stock options and warrants.

During the three months ended September 30, 2005, Liberty entered into several put option contracts with respect to its Series A common stock. As of September 30, 2005, put option contracts with respect to 6.0 million shares of Series A common stock were outstanding with a weighted average exercise price of $8.26. All such put options had a remaining term of less than 30 days.

At December 31, 2004, Liberty had entered into zero-strike call spreads ("Z-Call") with respect to six million shares of its Series A common stock. Liberty net cash settled all of its Z-Calls during the first quarter of 2005 for net cash proceeds of $63 million, which primarily represented the return of collateral posted by Liberty in 2004. Changes in the fair value of the Z-Calls prior to settlement are included in realized and unrealized gains (losses) on financial instruments in the accompanying condensed consolidated statement of operations.

(10) Commitments and Contingencies

Film Rights

Starz Entertainment Group LLC ("SEG"), a wholly-owned subsidiary of Liberty, provides premium video programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States. SEG has entered into agreements with a number of motion picture producers which obligate SEG to pay fees ("Programming Fees") for the rights to exhibit certain films that are released by these producers. The unpaid balance of Programming Fees for films that were available for exhibition by SEG at September 30, 2005 is reflected as a liability in the accompanying condensed consolidated balance sheet. The balance due as of September 30, 2005 is payable as follows: $98 million in 2005, $51 million in 2006 and $20 million thereafter.

SEG has also contracted to pay Programming Fees for the rights to exhibit films that have been released theatrically, but are not available for exhibition by SEG until some future date. These amounts have not been accrued at September 30, 2005. SEG's estimate of amounts payable under these agreements is as follows: $24 million in 2005; $648 million in 2006; $113 million in 2007; $104 million in 2008; $91 million in 2009; and $133 million thereafter.

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

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

Guarantees

Liberty guarantees SEG's obligations under certain of its studio output agreements. At September 30, 2005, Liberty's guarantee for obligations for films released by such date aggregated $702 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, SEG has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of SEG, a consolidated subsidiary of Liberty, Liberty has not recorded a separate liability for its guarantee of these obligations.

At September 30, 2005, Liberty has guaranteed Y4.1 billion ($36 million) of the bank debt of Jupiter Telecommunications, Co., Ltd. ("J-COM"), a former equity affiliate that provides broadband services in Japan. Liberty's guarantees expire as the underlying debt matures and is repaid. The debt maturity dates range from 2005 to 2018. Liberty's investment in J-COM was attributed to LMI in the LMI Spin Off. In connection with the LMI Spin Off, LMI has indemnified Liberty for any amounts Liberty is required to fund under these guarantees.

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

Operating Leases

Liberty and its subsidiaries lease business offices, have entered into satellite transponder lease agreements and use certain equipment under lease arrangements.

Litigation

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

Loss Contract

During the third quarter of 2005, a subsidiary of Liberty, TruePosition, Inc. ("TruePostion"), entered into an agreement with one of its major customers whereby TruePosition will remove and replace certain location-based equipment supplied by another vendor and currently installed in the customer's network. TruePosition currently estimates that the costs to provide this equipment and service will exceed the revenue earned and that it will incur a loss on the contract. Since this agreement is an executory contract, TruePosition will recognize this loss during the term of the contract as material elements of the contract are delivered. TruePosition entered into this agreement because it believes its appointment as the customer's exclusive provider of these services and the resulting future potential revenue earned from the customer's continuing network build-out and expansion will exceed the loss computed on the contractual arrangement. However, no assurance can be given that future business from this customer will be sufficient to offset the loss incurred on this portion of the contract.

Income Taxes

Since issuance, we have claimed interest deductions on our exchangeable debentures for federal income tax purposes based on the "comparable yield" at which we could have issued a fixed-rate debenture with similar terms and conditions. In all instances, this policy has resulted in us claiming interest deductions significantly in excess of the cash interest currently paid on our exchangeable debentures. Interest deducted in prior years on our exchangeable debentures has contributed to net operating losses ("NOLs") that may be carried to offset taxable income in 2005 and later years. These NOLs and current interest deductions on our exchangeable debentures are being used to offset taxable income currently being generated.

The IRS has issued Technical Advice Memorandums (the "TAMs") challenging the current deductibility of interest expense claimed on exchangeable debentures issued by other companies. The TAMs conclude that such interest expense must be capitalized as basis to the shares referenced in the exchangeable debentures. If the IRS were to similarly challenge our tax treatment of these interest deductions, and ultimately win such challenge, there would be no impact to our reported total tax expense as the resulting increase in current tax expense would be offset by a decrease in our deferred tax expense. However, the NOLs we have recorded would not be available to offset our current taxable income, and we would be required to make current federal income tax payments. These federal income tax payments could prove to be significant.

(11) Operating Segments

Liberty is a holding company which, through its ownership of interests in subsidiaries and other companies, is primarily engaged in the electronic retailing, media, communications and entertainment industries. Each of these businesses is separately managed. Liberty identifies its reportable segments as (A) those consolidated subsidiaries that represent 10% or more of its consolidated revenue, earnings before income taxes or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of Liberty's earnings before income taxes. In 2004, we had organized our businesses into four groups Interactive Group, Networks Group, International Group and Corporate and Other. On June 7, 2004, we completed the spin off of our wholly-owned subsidiary, LMI, to our shareholders. Substantially all of the assets and businesses of LMI were included in our International Group. The DHC Spin Off was completed on July 21, 2005. DHC's assets are comprised of our 100% ownership interest in Ascent Media, which was included in our Interactive Group, and our 50% ownership interest in Discovery, which was included in our Networks Group, and $200 million in cash. As a result of the LMI Spin Off and the DHC Spin Off, we now operate and analyze our businesses individually, rather than combining them with other businesses into groups. The segment presentation for prior periods has been conformed to the current period segment presentation.

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

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

For the nine months ended September 30, 2005, Liberty has identified the following businesses as its reportable segments:

QVC consolidated subsidiary that markets and sells a wide variety of consumer products in the U.S. 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.

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

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

Performance Measures

	Nine Months Ended September 30,			
	2005		2004	
	Revenue	Operating Cash Flow	Revenue	Operating Cash Flow
	amounts in millions			
QVC	$ 4,418	953	3,864	819
SEG	757	142	715	193
Corporate and Other	335	(9)	300	(14)
Consolidated Liberty	$ 5,510	1,086	4,879	998

	Three Months Ended September 30,			
	2005		2004	
	Revenue	Operating Cash Flow	Revenue	Operating Cash Flow
	amounts in millions			
QVC	$ 1,475	306	1,292	271
SEG	245	47	245	62
Corporate and Other	130	3	95	(13)
Consolidated Liberty	$ 1,850	356	1,632	320

Other Information

	September 30, 2005		
	Total Assets	Investments in Affiliates	Capital Expenditures
	amounts in millions		
QVC	$ 15,305	2	94
SEG	2,926	47	6
Corporate and Other	23,712	1,877	58
Consolidated Liberty	$ 41,943	1,926	158

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

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
	amounts in millions	
Consolidated segment operating cash flow	$ 1,086	998
Stock-based compensation	(32)	(16)
Litigation settlements		42
Depreciation and amortization	(484)	(484)
Interest expense	(444)	(448)
Share of earnings of affiliates	15	5
Realized and unrealized gains (losses) on financial instruments, net	148	(344)
Gains (losses) on dispositions of assets, net	(363)	621
Nontemporary declines in fair value of investments	(68)	(128)
Other, net	86	91
Earnings (loss) from continuing operations before income taxes and minority interests	$ (56)	337

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Media Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Media Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the internal control over financial reporting of Liberty Media Corporation as of December 31, 2004, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 14, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Denver, Colorado
March 14, 2005, except for
Note 5 and Note 18, which are
as of December 15, 2005

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

	2004*	2003*
	amounts in millions	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,387	2,966
Trade and other receivables, net	1,035	946
Inventory, net	712	588
Prepaid expenses and program rights	562	464
Derivative instruments (note 7)	827	543
Other current assets	53	347
Total current assets	4,576	5,854
Investments in available-for-sale securities and other cost investments (note 6)	21,847	19,566
Long-term derivative instruments (note 7)	1,601	3,247
Investments in affiliates, accounted for using the equity method (note 8)	784	745
Property and equipment, at cost	1,637	1,474
Accumulated depreciation	(504)	(355)
	1,133	1,119
Intangible assets not subject to amortization (note 2):		
Goodwill	6,938	6,780
Trademarks	2,385	2,385
	9,323	9,165
Intangible assets subject to amortization, net (note 2)	4,436	4,815
Other assets, at cost, net of accumulated amortization	765	573
Assets of discontinued operations (note 5)	5,716	9,141
Total assets	$ 50,181	54,225

* See note 5.

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

	2004	2003*
	amounts in millions	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 424	390
Accrued interest payable	143	152
Other accrued liabilities	645	594
Accrued stock compensation	235	190
Program rights payable	200	177
Derivative instruments (note 7)	1,179	854
Other current liabilities	285	145
Total current liabilities	3,111	2,502
Long-term debt (note 9)	8,566	9,417
Long-term derivative instruments (note 7)	1,812	1,756
Deferred income tax liabilities (note 10)	9,701	9,729
Other liabilities	801	355
Liabilities of discontinued operations (note 5)	1,305	1,331
Total liabilities	25,296	25,090
Minority interests in equity of subsidiaries	299	293
Stockholders' equity (note 11):		
Preferred stock, $.01 par value. Authorized 50,000,000 shares; no shares issued		
Series A common stock $.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 2,678,895,158 shares at December 31, 2004 and 2,669,835,166 shares at December 31, 2003	27	27
Series B common stock $.01 par value. Authorized 400,000,000 shares; issued 131,062,825 shares at December 31, 2004 and 217,100,515 shares at December 31, 2003	1	2
Additional paid-in capital	33,765	39,001
Accumulated other comprehensive earnings, net of taxes ("AOCE") (note 15)	4,215	3,241
AOCE from discontinued operations	12	(40)
Unearned compensation	(64)	(98)
Accumulated deficit	(13,245)	(13,291)
	24,711	28,842
Series B common stock held in treasury, at cost (10,000,000 shares at December 31, 2004)	(125)	
Total stockholders' equity	24,586	28,842
Commitments and contingencies (note 17)		
Total liabilities and stockholders' equity	$ 50,181	54,225

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2004, 2003 and 2002

	2004*	2003*	2002*
	amounts in millions, except per share amounts		
Revenue:			
Net sales from electronic retailing	$ 5,687	1,973	
Communications and programming services	1,364	1,257	1,266
	7,051	3,230	1,266
Operating costs and expenses:			
Cost of sales electronic retailing services	3,594	1,258	
Operating	1,356	860	621
Selling, general and administrative ("SG&A")	662	387	328
Stock compensation SG&A (note 2)	98	(91)	(46)
Litigation settlement	(42)		
Depreciation	172	127	100
Amortization	486	267	174
Impairment of long-lived assets (note 2)		1,362	103
	6,326	4,170	1,280
Operating income (loss)	725	(940)	(14)
Other income (expense):			
Interest expense	(615)	(508)	(367)
Dividend and interest income	131	164	179
Share of earnings (losses) of affiliates, net (note 8)	15	7	(57)
Realized and unrealized gains (losses) on derivative instruments, net (note 7)	(1,284)	(661)	2,127
Gains (losses) on dispositions, net (notes 6, 8 and 11)	1,406	1,126	(538)
Nontemporary declines in fair value of investments (note 6)	(129)	(22)	(5,806)
Other, net	(25)	(53)	(5)
	(501)	53	(4,467)
Earnings (loss) from continuing operations before income taxes and minority interest	224	(887)	(4,481)
Income tax benefit (expense) (note 10)	(119)	(342)	1,481
Minority interests in losses (earnings) of subsidiaries	(5)		27
Earnings (loss) from continuing operations before cumulative effect of accounting change	100	(1,229)	(2,973)
Earnings (loss) from discontinued operations, net of taxes (note 5)	(54)	7	(849)
Cumulative effect of accounting change, net of taxes (note 2)			(1,508)
Net earnings (loss)	$ 46	(1,222)	(5,330)
Earnings (loss) per common share (note 2):			
Basic and diluted earnings (loss) from continuing operations	$ .04	(.44)	(1.15)
Discontinued operations	(.02)		(.33)

	2004*	2003*	2002*
Cumulative effect of accounting change, net of taxes			(.58)
Basic and diluted net earnings (loss)	$ .02	(.44)	(2.06)
Number of common shares outstanding	2,856	2,748	2,590

*

See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

Years ended December 31, 2004, 2003 and 2002

	2004*	2003*	2002*
	amounts in millions		
Net earnings (loss)	$ 46	(1,222)	(5,330)
Other comprehensive earnings (loss), net of taxes (note 15):			
Foreign currency translation adjustments	23	35	68
Unrealized holding gains (losses) arising during the period	1,490	3,341	(4,153)
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	(488)	(628)	3,598
Other comprehensive earnings (loss) from discontinued operations (note 5)	(55)	227	(127)
Other comprehensive earnings (loss)	970	2,975	(614)
Comprehensive earnings (loss)	$ 1,016	1,753	(5,944)

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2004, 2003 and 2002

		Common Stock								
	Preferred Stock	Series A	Series B	Additional Paid-in Capital	AOCE	AOCE from Discontinued Operations	Unearned Compensation	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
	amounts in millions									
Balance at January 1, 2002	$	24	2	35,996	980	(140)		(6,739)		30,123
Net loss								(5,330)		(5,330)
Other comprehensive loss					(487)	(127)				(614)
Issuance of common stock for acquisitions				195						195
Issuance of common stock pursuant to rights offering		1		617						618
Purchases of Series A common stock				(281)						(281)
Series A common stock put options, net of cash received (note 11)				(29)						(29)
Balance at December 31, 2002		25	2	36,498	493	(267)		(12,069)		24,682
Net loss								(1,222)		(1,222)
Other comprehensive earnings					2,748	227				2,975
Issuance of Series A common stock for acquisitions		2		2,654						2,656
Issuance of Series A common stock for cash				141						141
Purchases of Series A common stock				(437)						(437)
Issuance of restricted stock				102			(102)			
Amortization of deferred compensation							4			4
Series A common stock put options, net of cash received (note 11)				37						37
Gain in connection with the issuance of stock of a subsidiary				6						6
Balance at December 31, 2003		27	2	39,001	3,241	(40)	(98)	(13,291)		28,842
Net earnings								46		46
Other comprehensive earnings (loss)					1,025	(55)				970
Issuance of Series A common stock for acquisitions				152						152
Issuance of Series A common stock in exchange for Series B common stock (note 11)		1	(1)	125					(125)	

	Common Stock								
Acquisition of Series A common stock (note 11)	(1)		(1,016)						(1,017)
Amortization of deferred compensation						31			31
Distribution to stockholders for spin off of Liberty Media International ("LMI") (note 5)			(4,512)	(51)	107				(4,456)
Stock compensation for Liberty options held by LMI employees (note 13)			(4)						(4)
Stock compensation for LMI options held by Liberty employees (note 13)			17						17
Cancellation of restricted stock			(3)			3			
Other			5						5
Balance at December 31, 2004	$ 27	1	33,765	4,215	12	(64)	(13,245)	(125)	24,586

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2004, 2003 and 2002

	2004*	2003*	2002*
	amounts in millions (see note 3)		
Cash flows from operating activities:			
Earnings (loss) from continuing operations	$ 100	(1,229)	(4,481)
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided (used) by operating activities:			
Cumulative effect of accounting change, net of taxes			1,508
Depreciation and amortization	658	394	274
Impairment of long-lived assets		1,362	103
Stock compensation	98	(91)	(46)
Payments of stock compensation	(10)	(360)	(117)
Noncash interest expense	96	75	12
Share of losses (earnings) of affiliates, net	(15)	(7)	57
Nontemporary decline in fair value of investments	129	22	5,806
Realized and unrealized losses (gains) on derivative instruments, net	1,284	661	(2,127)
Losses (gains) on disposition of assets, net	(1,406)	(1,126)	538
Minority interests in earnings (losses) of subsidiaries	5		(27)
Deferred income tax expense (benefit)	(233)	269	(1,489)
Other noncash charges	21	70	19
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions:			
Receivables	(51)	(176)	(33)
Inventory	(124)	(14)	
Prepaid expenses and other current assets	(344)	(149)	(83)
Payables and other current liabilities	625	186	9
Net cash provided (used) by operating activities	833	(113)	(77)
Cash flows from investing activities:			
Cash proceeds from dispositions	479	2,443	981
Premium proceeds from origination of derivatives	193	763	521
Net proceeds from settlement of derivatives	322	1,172	410
Investments in and loans to equity affiliates	(30)	(48)	(65)
Investments in and loans to cost investees	(930)	(2,509)	(228)
Cash paid for acquisitions, net of cash acquired	(93)	(711)	(44)
Capital expended for property and equipment	(177)	(151)	(91)
Net sales of short term investments	272	95	148
Repayments of notes receivable from LMI	117		
Other investing activities, net	(14)	9	21
Net cash provided by investing activities	139	1,063	1,653
Cash flows from financing activities:			
Borrowings of debt		4,152	170
Repayments of debt	(1,006)	(3,073)	(726)
Purchases of Liberty Series A common stock	(547)	(437)	(281)
Repurchases of subsidiary common stock	(171)		
Proceeds from issuance of common stock		141	618
Other financing activities, net	37	(42)	2
Net cash provided (used) by financing activities	(1,687)	741	(217)
Net cash provided to discontinued operations (note 3)	(864)	(875)	(1,250)

	2004*	2003*	2002*
Net increase (decrease) in cash and cash equivalents	(1,579)	816	109
Cash and cash equivalents at beginning of year	2,966	2,150	2,041
Cash and cash equivalents at end of year	$ 1,387	2,966	2,150

*

See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004, 2003 and 2002

(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Media Corporation and its controlled subsidiaries ("Liberty" or the "Company," unless the context otherwise requires). All significant intercompany accounts and transactions have been eliminated in consolidation.

Liberty is a holding company which, through its controlling and noncontrolling ownership of interests in subsidiaries and other companies, is primarily engaged in the electronic retailing, media, communications and entertainment industries in the United States, Europe and Asia. In addition, companies in which Liberty owns interests are engaged in, among other things, (i) interactive commerce via the Internet, television and telephone, (ii) domestic cable and satellite broadband services, and (iii) telephony and other technology ventures. Prior to the June 7, 2004 spin off of Liberty Media International, Inc., Liberty was also engaged in international broadband distribution of video, voice and data services. See note 5.

(2) Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Receivables

Receivables are reflected net of an allowance for doubtful accounts. Such allowance aggregated $65 million and $80 million at December 31, 2004 and 2003, respectively. A summary of activity in the allowance for doubtful accounts is as follows:

		Additions			
	Balance Beginning of Year	Charged to Expense	Acquisitions	Deductions Write-offs	Balance End of Year
	amounts in millions				
2004	$ 80	20		(35)	65
2003	$ 18	16	62	(16)	80
2002	$ 6	19	1	(8)	18

Inventory

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

A summary of activity in the inventory obsolescence account is as follows:

	Balance Beginning of Year	Additions: Charged to Expense	Additions: Acquisitions	Deductions Write-offs	Balance End of Year
	amounts in millions				
2004	$ 93	54		(59)	88
2003	$	19	93	(19)	93

Program Rights

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

Investments

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

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

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

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary ("nontemporary"). The primary factors the Company considers in its determination are the length of time that the fair value of the investment is below the Company's carrying value; and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be nontemporary, the cost basis of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of a public market price or other factors, the

Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. The Company's assessment of the foregoing factors involves a high degree of judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. Writedowns for cost investments and AFS Securities are included in the consolidated statements of operations as nontemporary declines in fair values of investments. Writedowns for equity method investments are included in share of earnings (losses) of affiliates.

Derivative Instruments and Hedging Activities

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

- executes its derivative instruments with several different counterparties, and

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

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

Liberty accounts for its derivatives pursuant to Statement of Financial Accounting Standards No. 133 "*Accounting for Derivative Instruments and Hedging Activities*" ("Statement 133"). All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings.

During 2002, the only derivative instruments designated as hedges were the Company's equity collars, which were designated as fair value hedges. Effective December 31, 2002, the Company elected to dedesignate its equity collars as fair value hedges. Such election had no effect on the Company's financial position at December 31, 2002 or its results of operations for the year ended December 31, 2002. Subsequent to December 31, 2002, changes in the fair value of the Company's AFS Securities that previously had been reported in earnings due to the designation of equity collars as fair value hedges are reported as a component of other comprehensive earnings (loss) on the Company's consolidated balance sheet. Changes in the fair value of the equity collars continue to be reported in earnings.

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

Property and Equipment

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

Intangible Assets

Adoption of Statement No. 142

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("Statement 142"). Statement 142 requires that goodwill and other intangible assets with indefinite useful lives (collectively, "indefinite lived intangible assets") no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of Statement 142. Equity method goodwill is also no longer amortized, but continues to be considered for impairment under Accounting Principles Board Opinion No. 18. Statement 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("Statement 144").

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

The Company determined the fair value of its reporting units using independent appraisals, public trading prices and other means. The Company then compared the fair value of each reporting unit to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeded its fair value, the Company performed the second step of the transitional impairment test. In the second step, the Company compared the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation, to its carrying amount, both of which were measured as of the date of adoption.

In situations where the implied fair value of a reporting unit's goodwill was less than its carrying value, Liberty recorded a transition impairment charge. The Company recognized a $1,508 million transitional impairment loss, net of taxes of $24 million, as the cumulative effect of a change in accounting principle in 2002. The foregoing transitional impairment loss includes an adjustment of $61 million for the Company's proportionate share of transition adjustments that its equity method affiliates recorded.

Goodwill

Changes in the carrying amount of goodwill for the year ended December 31, 2004 are as follows:

	QVC, Inc.	Starz Entertainment Group LLC	Other(3)	Total
	amounts in millions			
Balance at December 31, 2003	$ 3,889	1,383	1,508	6,780
Acquisitions(1)	39			39
Other(2)	120		(1)	119
Balance at December 31, 2004	$ 4,048	1,383	1,507	6,938

(1) During the year ended December 31, 2004, QVC, Inc. ("QVC") completed the buyout of a minority partner for aggregate cash consideration of $92 million. In connection with this buyout, QVC recorded additional goodwill of $39 million, which represents the excess of the purchase price over the carrying value of the minority interest.

(2) Other activity for QVC relates primarily to the repurchase of QVC stock held by employees of QVC. The differences between the carrying value of the minority interest acquired and the purchase price is recorded as goodwill.

(3) As noted above, the Company's enterprise-level goodwill of $1,377 million is allocable to reporting units, whether they are consolidated subsidiaries or equity method investments. Total enterprise-level goodwill at December 31, 2004, which is included in Other, is allocated as follows (amounts in millions).

Entity	Allocable Goodwill
QVC	$ 1,220
Courtroom Television Network, LLC ("Court TV")	124
GSN, LLC ("GSN")	17
Other	16
	$ 1,377

Starz Entertainment Group LLC ("Starz Entertainment") obtained an independent third party valuation in connection with its 2003 annual year-end evaluation of the recoverability of its goodwill. The result of this valuation, which was based on a discounted cash flow analysis of projections prepared by the management of Starz Entertainment, indicated that the fair value of this reporting unit was less than its carrying value. This reporting unit fair value was then used to calculate an implied value of the goodwill (including $1,195 million of allocated enterprise-level goodwill) related to Starz Entertainment. The $1,352 million excess of the carrying amount of the goodwill over its implied value was recorded as an impairment charge in the fourth quarter of 2003. The reduction in the value of Starz Entertainment reflected in the third party valuation is believed to be attributable to a number of factors. Those factors include the reliance placed in that valuation on projections by management reflecting a lower rate of revenue growth compared to earlier projections based, among other things, on the possibility that revenue growth may be negatively affected by (1) a reduction in the rate of growth in total digital video subscribers and in the subscription video on demand business as a result of cable operators' increased focus on the marketing and sale of other services, such as high speed Internet access and telephony, and the uncertainty as to the success of marketing efforts by distributors of Starz Entertainment's services and (2) lower per subscriber rates under a new affiliation agreement with Comcast.

In August 2002, Liberty purchased 38% of the common equity and 85% of the voting power of OpenTV Corp. ("OpenTV"), which when combined with Liberty's previous ownership interest in OpenTV, brought Liberty's total ownership to 41% of the equity and 86% of the voting power of OpenTV. During the period between the execution of the purchase agreement in May 2002 and the consummation of the acquisition in August 2002, OpenTV disclosed that it was lowering its revenue and cash flow projections for 2002 and extending the time before it would be cash flow positive. As a result, OpenTV wrote off all of its separately recorded goodwill. In light of the announcement by OpenTV and the adverse impact on its stock price, as well as other negative factors arising in its industry sector, Liberty determined that the goodwill initially recorded in purchase accounting ($92 million) was not recoverable. This assessment is supported by an appraisal performed by an independent third party. Accordingly, Liberty recorded an impairment charge for the entire amount of the goodwill during the third quarter of 2002. In addition to the goodwill impairment related to OpenTV, the Company recorded 2002 impairments of $11 million related to other consolidated subsidiaries.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are comprised of the following:

	December 31, 2004			December 31, 2003		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
			amounts in millions			
Distribution rights	$ 2,618	(589)	2,029	2,580	(375)	2,205
Customer relationships	2,347	(224)	2,123	2,336	(56)	2,280
Other	622					