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LIBERTY MEDIA CORP /DE/  
Form S-1/A  
May 24, 2001

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 24, 2001

REGISTRATION NO. 333-55998

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AMENDMENT NO. 2  
TO  
FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

DELAWARE (State or other jurisdiction of incorporation or organization)	4841 (Primary Standard Industrial Classification code number)	84-1288730 (I.R.S. Employer Identification No.)
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9197 SOUTH PEORIA STREET  
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, ESQ.  
LIBERTY MEDIA CORPORATION  
9197 SOUTH PEORIA STREET  
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., ESQ.  
BAKER BOTTS L.L.P.  
599 LEXINGTON AVENUE  
NEW YORK, NEW YORK 10022-6030  
(212) 705-5000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon  
as practicable after the effective date hereof.

If any of the securities being registered on this Form are to be offered on  
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of  
1933, check the following box: [ ]

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

If this Form is a post-effective amendment filed pursuant to Rule 462(c) 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. [ ]

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. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

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 THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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PROSPECTUS

LIBERTY MEDIA CORPORATION

SPLIT OFF FROM AT&T CORP.

LIBERTY LOGO

We are currently a wholly owned subsidiary of AT&T Corp. This prospectus is being furnished in connection with our split off from AT&T and the issuance of our Series A common stock and Series B common stock in the split off. Our businesses and assets and those of our subsidiaries constitute all of the businesses and assets of AT&T that are attributed to AT&T's Liberty Media Group, which was created in connection with AT&T's acquisition of our former parent company.

AT&T is effecting the split off pursuant to the terms of its charter. AT&T's charter enables it to redeem all of the outstanding shares of its Liberty Media Group tracking stock, which is a class of common stock of AT&T that is designed to reflect the economic performance of AT&T's Liberty Media Group, for shares of our common stock. The redemption will be effective as of 9:00 a.m., New York City time, on \_\_\_\_\_, 2001, which we refer to as the redemption date.

In the redemption, you will be entitled to receive:

- one share of our Series A common stock in exchange for each share of AT&T's Class A Liberty Media Group tracking stock held by you on the redemption date; and
- one share of our Series B common stock in exchange for each share of AT&T's Class B Liberty Media Group tracking stock held by you on the redemption date.

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As a result of the redemption, we will issue 2,376,765,123 shares of our Series A common stock and 212,045,288 shares of our Series B common stock, based upon the number of shares of AT&T's Class A Liberty Media Group tracking stock and AT&T's Class B Liberty Media Group tracking stock outstanding on February 28, 2001, and assuming no exercise of outstanding stock options or warrants.

No stockholder approval of the split off is required, and none is being sought. We are not asking you for a proxy, and you are requested not to send us a proxy.

There is currently no trading market for our common stock. We have applied to list our Series A common stock and Series B common stock on the New York Stock Exchange under the symbols "LMC.A" and "LMC.B", respectively.

IN REVIEWING THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE MATTERS DESCRIBED UNDER THE CAPTION "RISK FACTORS" BEGINNING ON PAGE 13.

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NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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Please contact our information agent, D.F. King & Co., 77 Water Street, 20th Floor New York, New York 10005, (800) 207-2014, if you have any questions or inquiries with respect to the split off.

The date of this prospectus is May 24, 2001.

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PROSPECTUS

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NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA421-B WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR A QUALIFICATION OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION TO THE CONTRARY WITH THE PROVISIONS OF THIS PARAGRAPH.

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SUMMARY

The following is a summary of some of the information contained in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, including the risks of investing in our common stock discussed under "Risk Factors" and our consolidated financial statements and the notes thereto included in this prospectus.

OUR COMPANY

We own interests in a broad range of video programming, communications and Internet businesses in the United States, Europe, South America and Asia and have some of the most recognized and respected brands. These brands include Encore, STARZ!, Discovery, TV Guide, Fox, USA, QVC, AOL, CNN, TBS, Motorola and Sprint PCS.

The media, entertainment and communications industries are currently undergoing tremendous changes due in part to the growth of new distribution technologies, led by the Internet and the implementation of digital compression. The growth in distribution technologies has, in turn, created strong demand for an ever increasing array of multimedia products and services. We are working with our subsidiaries and business affiliates to extend their established brands, quality content and networks across multiple distribution platforms to keep them at the forefront of these ongoing changes.

The following table lists our principal subsidiaries and business affiliates and our direct equity interests or indirect attributed equity

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interests, based upon ownership of capital stock. Our direct or attributed equity interest in a particular company does not necessarily represent our voting interest in that company. Our indirect attributed interest is determined by multiplying our ownership interest in the holder of an equity interest by that equity holder's ownership interest in the listed subsidiary or business affiliate. The ownership percentages are approximate, calculated as of May 15, 2001, and, in the case of convertible securities we hold, assume conversion to common stock by us and, to the extent known by us, other holders. In some cases our interest is subject to buy/sell procedures, rights of first refusal or other obligations. See "Business."

SUBSIDIARY/BUSINESS AFFILIATE -----	ATTRIBUTED OWNERSHIP % -----
Starz Encore Group LLC.....	100%
Liberty Digital, Inc. ....	92%
Discovery Communications, Inc. ....	49%
QVC, Inc. ....	42%
Telewest Communications plc.....	25%
Sprint PCS Group.....	21%
USA Networks, Inc. ....	21%
The News Corporation Limited.....	18%
AOL Time Warner Inc. ....	4%
Gemstar-TV Guide International, Inc.....	4%
Motorola, Inc. ....	4%

Our principal executive offices are located at 9197 South Peoria Street, Englewood, Colorado 80112. Our main telephone number is (720) 875-5400.

RELATIONSHIP WITH AT&T CORP.

We have been a wholly owned subsidiary of AT&T Corp. since March 9, 1999. On that date, AT&T acquired by merger our parent company, the former Tele-Communications, Inc. (TCI), which has since been converted to a limited liability company and renamed AT&T Broadband, LLC. As part of that merger, AT&T issued its Class A and Class B Liberty Media Group tracking stock, which is designed to reflect the economic performance of the businesses and assets of AT&T attributed to its "Liberty Media

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Group." We have been a member of AT&T's Liberty Media Group since the TCI merger, and our businesses and assets constitute all of the businesses and assets of AT&T's Liberty Media Group.

We have had a substantial degree of managerial autonomy as a result of our corporate governance arrangements with AT&T. Our board of directors is controlled by persons designated by TCI prior to its acquisition by AT&T, and our management includes individuals who managed the businesses of Liberty Media Corporation prior to the TCI merger. We are party to agreements with AT&T which have provided us with a significant level of operational separation from AT&T, defined our rights and obligations as a member of AT&T's consolidated tax group and provided us with certain rights to distribute programming over AT&T's cable systems. In connection with the split off, we will amend and/or terminate

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portions of these agreements to give effect to our status as an independent public company.

BUSINESS STRATEGY

Our business strategy is to maximize our value by (1) working with the management teams of our existing subsidiaries and business affiliates to grow their established businesses and create new businesses; (2) identifying and executing strategic transactions that improve the value or optimize the efficiency of our assets; and (3) managing our capital structure to maintain liquidity, reduce risk and preserve a prudent debt structure. Key elements of our business strategy include the following:

- Promoting the internal growth of our subsidiaries and business affiliates;
- Maintaining significant involvement in governance;
- Participating with experienced management and strategic partners;
- Executing strategic transactions that optimize the efficiency of our assets; and
- Participating in financial transactions to optimize our financial structure.

THE SPLIT OFF

Please see "The Split Off" for a more detailed description of the matters described below.

Company effecting split off.....	AT&T Corp.
Split off company.....	Liberty Media Corporation.
Redemption date.....	The redemption date is 9:00 a.m., New York City time, on _____, 2001. From and after the redemption date, all of your rights as a holder of AT&T's Liberty Media Group tracking stock shall cease, except for the right to receive shares of our common stock upon the surrender of your shares of AT&T's Liberty Media Group tracking stock.
Split off ratio.....	Each share of AT&T's Class A Liberty Media Group tracking stock will be redeemed in exchange for one share of our Series A common stock, and each share of AT&T's Class B Liberty Media Group tracking stock will be redeemed in exchange for one share of our Series B common stock.
Exchange agent, transfer agent and registrar for the shares.....	EquiServe Trust Company, N.A., 150 Royall Street, Canton, MA 02021

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Surrendering shares..... We will deliver or make available to all holders of AT&T's Liberty Media Group tracking stock, from and after the redemption date, a letter of transmittal with which to surrender their shares in the redemp-

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tion in exchange for shares of the appropriate series of our common stock.

Our common stock..... Our Series A and Series B common stock are identical in all respects, except that (1) our Series A common stock entitles its holder to one vote per share, (2) our Series B common stock entitles its holder to ten votes per share and (3) each share of our Series B common stock is convertible, at the option of the holder, into one share of our Series A common stock. Our Series A common stock is not convertible.

Shares to be outstanding following split off..... Following the split off, the former holders of AT&T's Liberty Media Group tracking stock will hold all of the outstanding shares of our common stock. On the redemption date, there will be outstanding 2,376,765,123 shares of our Series A common stock and 212,045,288 shares of our Series B common stock, based upon the number of shares of AT&T's Class A Liberty Media Group tracking stock and AT&T's Class B Liberty Media Group tracking stock outstanding on February 28, 2001, and assuming no exercise of outstanding stock options or warrants.

Federal income tax consequences of the split off..... It is a non-waivable condition to the split off that:

- a private letter ruling shall have been received, in form and substance reasonably satisfactory to us and AT&T, with regard to the U.S. federal income tax consequences of the split off to the effect that the split off will be treated as a tax-free exchange under Section 355 of the Internal Revenue Code of 1986, as amended, and

- that such private letter ruling shall

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not have been revoked in whole or in part nor modified in any manner, in each case materially adverse to us, AT&T, or the holders of AT&T's Liberty Media Group tracking stock, and that all transactions described in the private letter ruling that are to be taken prior to the effective time of the split off shall have been taken prior to, and be in effect as of, the effective time of the split off.

Stock exchange listing..... There is currently no public market for our common stock. We have applied to list our Series A common stock and Series B common stock on the New York Stock Exchange under the symbols "LMC.A" and "LMC.B", respectively.

No appraisal rights..... Holders of AT&T's Liberty Media Group tracking stock have no dissenters' rights of appraisal in connection with the split off.

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[DIAGRAM OF THE SPLIT OFF CHART]

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SUMMARY HISTORICAL FINANCIAL INFORMATION

In the table below, we provide you with selected historical consolidated financial data of Liberty Media Corporation. This selected historical consolidated financial data includes the effect of certain other subsidiaries and assets of AT&T that are attributed to AT&T's Liberty Media Group but were not held by us prior to the second quarter of 2001 (we refer to these assets as the contributed assets). We derived the historical consolidated financial data from our consolidated financial statements (which have been restated to include the effects of the contributed assets) included elsewhere in this prospectus.

On May 7, 2001, in anticipation of the split off, AT&T effected the contribution of the contributed assets to Liberty Media Corporation. These assets consist primarily of the following:

- a preferred stock and common stock interest in a subsidiary of IDT Corporation, a multinational telecommunications services provider; and
- an approximate 8% indirect common equity interest in Liberty Digital, Inc., one of our consolidated subsidiaries.



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These contributions, which represent only a portion of our assets, are being accounted for in a manner similar to a pooling of interests and, accordingly, the financial statements of Liberty Media Corporation for periods prior to the contributions have been restated to include the financial position and results of operations of the contributed assets (including the predecessor assets to our investment in the subsidiary of IDT) from the dates of their acquisition by AT&T. The predecessor assets included a preferred stock interest and common stock warrants in ICG Communications, Inc., a competitive local exchange telephone company, and a common equity interest in Teligent, Inc., a full service facilities based communications company.

We have been a wholly owned subsidiary of TCI since August 1994. On March 9, 1999, AT&T acquired TCI in a merger transaction. For financial reporting purposes, the merger of AT&T and TCI is deemed to have occurred on March 1, 1999. In connection with the merger, the assets and liabilities of Liberty were adjusted to their respective fair values pursuant to the purchase method of accounting. For periods prior to March 1, 1999, the assets and liabilities of Liberty and the related consolidated results of operations are referred to below as "Old Liberty," and for periods subsequent to February 28, 1999, the assets and liabilities of Liberty and the related consolidated results of operations are referred to as "New Liberty." In connection with the merger, TCI effected an internal restructuring as a result of which certain net assets and approximately \$5.5 billion in cash were contributed to us.

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The financial data presented below is not necessarily comparable from period to period as a result of several transactions, including acquisitions and dispositions of consolidated subsidiaries. For this and other reasons, you should read the selected historical financial data provided below in conjunction with our consolidated financial statements and accompanying notes beginning on page F-1 and the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 21.

	NEW LIBERTY				
	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000	YEAR ENDED DECEMBER 31, 2000	TEN MONTHS ENDED DECEMBER 31, 1999	TWO MON THS ENDED FEBRUARY 1999
	(UNAUDITED)				
	(IN MILLIONS)				
<b>OPERATING DATA:</b>					
Revenue.....	\$ 504	\$ 235	\$ 1,526	\$ 729	\$ 23
Operating income (loss).....	(207)	(83)	436	(2,214)	(15)
Interest expense.....	(133)	(439)	(399)	(134)	(2)
Share of losses of affiliates, net.....	(1,302)	(382)	(3,485)	(904)	(6)
Gain on dispositions, net.....	810	2,441	7,340	4	1
Net earnings (loss).....	(152)	939	1,485	(2,021)	(7)
<b>BALANCE SHEET DATA (AT PERIOD END):</b>					

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Cash and cash equivalents.....	\$ 2,089	\$ 2,177	\$ 1,295	\$ 1,714	\$ 3
Short-term investments.....	444	525	500	378	12
Investments in affiliates.....	19,222	17,040	20,464	15,922	3,97
Investments in available-for-sale securities and others.....	19,681	34,564	19,035	28,593	11,97
Total assets.....	54,402	68,214	54,268	58,658	16,88
Debt including current portion...	6,037	6,810	6,363	3,277	2,08
Stockholder's equity.....	34,047	41,940	34,290	38,435	9,44

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### THE SPLIT OFF

#### GENERAL

Under the terms of AT&T's charter, the AT&T board of directors may redeem, on a pro rata basis, all of the outstanding shares of AT&T's Class A Liberty Media Group tracking stock and AT&T's Class B Liberty Media Group tracking stock for all of the outstanding shares owned by AT&T of one or more subsidiaries that hold all of the assets and liabilities attributed to AT&T's Liberty Media Group (and hold no other material assets or liabilities). AT&T's board of directors and its capital stock committee have determined to exercise AT&T's right under its charter to redeem all outstanding shares of AT&T's Liberty Media Group tracking stock for shares of our common stock.

#### THE REDEMPTION; EXCHANGE RATIO

The redemption date is scheduled to occur at 9:00 a.m., New York City time, on \_\_\_\_\_, 2001. On the redemption date, each share of AT&T's Class A Liberty Media Group tracking stock will be redeemed for one share of our Series A common stock, and each share of AT&T's Class B Liberty Media Group tracking stock will be redeemed for one share of our Series B common stock. NO VOTE IS REQUIRED OR SOUGHT IN CONNECTION WITH THE SPLIT OFF, AND HOLDERS OF AT&T'S LIBERTY MEDIA GROUP TRACKING STOCK HAVE NO APPRAISAL RIGHTS IN CONNECTION WITH THE SPLIT OFF.

From and after the redemption date, all of your rights as a holder of AT&T's Liberty Media Group tracking stock shall cease, except for the right, upon the surrender to the exchange agent of your shares of AT&T's Liberty Media Group tracking stock, to receive shares of our common stock of a corresponding series. We will deliver or make available to all holders of AT&T's Liberty Media Group tracking stock, from and after the redemption date, a letter of transmittal with which to surrender their shares in the redemption in exchange for shares of the appropriate series of our common stock.

In addition, each option to purchase shares of AT&T's Class A or Class B Liberty Media Group tracking stock issued under employee stock incentive plans and outstanding on the redemption date will be converted into a similar option to purchase shares of our common stock of a corresponding series. Each outstanding warrant to purchase shares of AT&T's Class A Liberty Media Group tracking stock will be converted into a similar warrant to purchase shares of our Series A common stock at the same exercise price.

We will bear all of the costs and expenses incurred by us as a result of the split off. We have agreed to bear up to \$1.3 million of the costs and expenses incurred by AT&T as a result of the split off.

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### REASONS FOR THE SPLIT OFF

On November 15, 2000, AT&T announced that its board of directors had voted to exercise AT&T's right under its charter to split off its Liberty Media Group. AT&T has cited the following business reasons in making this determination:

The Split Off Will Facilitate AT&T's Regulatory Compliance With the Concerns Underlying the FCC's Conditions to AT&T's Acquisition of MediaOne Group, Inc. In June 2000, the Federal Communications Commission gave its conditional approval to AT&T's acquisition of MediaOne Group, Inc. At the time of its acquisition by AT&T, MediaOne was one of the largest cable television providers in the United States, with approximately 5 million subscribers to its basic cable service. In reviewing the MediaOne acquisition, the FCC determined that the acquisition would cause AT&T to violate the FCC's cable ownership and attribution rules, which became effective on May 19, 2000 after the statute authorizing those rules was upheld by an appellate court. Those rules prohibit a single cable company from serving more than 30 percent of the nation's multichannel video programming distribution (MVPD) subscribers, who are served primarily by cable television and direct broadcast satellite services. The FCC concluded that the

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combined AT&T/MediaOne would serve 41.8% of the nation's MVPD subscribers. This conclusion was reached, in part, as a result of AT&T's 25.5% limited partnership interest in Time Warner Entertainment Company, L.P., which we refer to as TWE. TWE owns and operates substantially all of the businesses of Warner Bros., Home Box Office and the cable television businesses owned and operated by Time Warner Inc. at the time of TWE's formation in 1992. While AT&T's limited partnership interest itself would not cause TWE's cable subscribers to be attributed to AT&T, the FCC found that, under its cable ownership and attribution rules, those subscribers are attributed to AT&T because TWE purchases programming from us. Under the terms of a Memorandum and Order adopted by the FCC, the FCC conditioned its approval of AT&T's acquisition of MediaOne on AT&T reducing its MVPD subscribers to a compliant level through one of the following methods: (1) divesting its 25.5% interest in TWE; (2) insulating its ownership interest in TWE by shedding its attributable interests in entities that sell programming to TWE, which would require the disposition of Liberty and the disposition or restructuring by AT&T of other attributable interests in programmers; or (3) disposing of direct interests in cable systems serving at least 9.7 million subscribers, or 4.7 million subscribers more than the 5 million subscribers acquired by AT&T in the MediaOne acquisition. Divesting a number of directly owned cable systems sufficient to bring AT&T's attributable subscribers to compliant levels was deemed unacceptable to AT&T as it would deny AT&T the benefits it sought to obtain when it acquired TCI and MediaOne. Although AT&T pursued and continues to pursue negotiations regarding the divestiture of its interest in TWE, AT&T did not receive the necessary cooperation of AOL Time Warner by the December 15, 2000 deadline set by the FCC for AT&T to state which compliance option it intended to implement. Accordingly, AT&T notified the FCC on December 15, 2000, that it intended to dispose of us in the split off and either dispose of or restructure its attributable interests in other programmers in compliance with the requirements of the FCC's Memorandum and Order.

On March 2, 2001, the D.C. Circuit Court of Appeals reversed and remanded the FCC's 30 percent limit on MVPD subscribers, the program sale interpretation of the limited partner exemption, and the channel occupancy rules that limit the extent to which a cable operator may carry affiliate programming, but the court confirmed the continued validity of the underlying statutory horizontal and

vertical ownership limitations and certain other FCC rules impacting us and AT&T. In addition, on March 16, 2001, the FCC suspended the remaining compliance deadlines established in the Memorandum and Order, pending further action by the FCC, to permit the FCC to consider the relationship, if any, between the court's decision on the ownership and attribution limitations and the ownership conditions imposed in the Memorandum and Order. The FCC did not suspend or modify the substance of those conditions, and thus left open the possibility that AT&T's obligation to comply with those conditions could be reinstated, or AT&T could become subject to a duty to meet similar conditions modified to address the concerns that led the court to reverse certain of the ownership and attribution limitations. On April 18, 2001, the FCC sought public comment on the relationship between the Court of Appeals' decision and the ownership conditions which it had imposed, as well as a petition for reconsideration of the March 16 suspension order.

AT&T has determined that management of the regulatory uncertainty created by the recent court decision, including compliance with the Memorandum and Order if it is reinstated in its original or a modified form, would be facilitated by the split off. In particular, because the underlying statutory authorization for cable ownership limitations continues to be valid, the FCC may adopt similar or modified cable ownership and attribution limitations to replace those that were remanded by the court, and the FCC may also reinstate AT&T's obligation to comply with the ownership conditions imposed in the Memorandum and Order, perhaps modified somewhat to conform to the court's decision. Consequently, even though the original compliance deadlines in the Memorandum and Order were suspended, separation of the cable programming business from AT&T's other businesses will facilitate our and AT&T's respective abilities to operate consistently with whatever cable ownership limitations are ultimately reimposed.

Apart from the issue of compliance with the Memorandum and Order, we and AT&T believe that our continued operation as a subsidiary of AT&T will severely limit the ability of us and AT&T to pursue our

respective strategic objectives and to maximize the value of our respective assets. First, the continued application of certain cable ownership limitations and the current uncertainty in the application of other cable ownership limitations impose serious limitations on the ability of each company to realize its economic potential (e.g., by hindering our ability to maximize the return from our programming assets or AT&T's ability to expand its base of cable subscribers). Second, even if a particular future transaction or business opportunity is eventually judged to be consistent with the FCC's rules or policies, the significantly heightened regulatory scrutiny resulting from our affiliation with AT&T will likely continue to impose delays and impediments to the rapid and effective execution of business strategies and proposed acquisitions.

The Split Off Is Expected to Enhance Our Debt Raising Ability. The split off is expected to enable us to raise capital at lower rates. In order to enhance our programming breadth and to remain competitive in our core businesses, we need capital not only to fund current operations but also to make acquisitions, increase our interests in existing ventures and acquire interests in new ventures. Our ability to issue publicly traded debt and to establish credit facilities with banks, in each case on reasonable commercial terms and within a short time frame, is critical to our business. We believe that our affiliation with AT&T has negatively affected our ability to borrow funds in both the public and the private debt markets at a cost commensurate with our industry peers. Our ability to incur debt may also be constrained by contractual arrangements with AT&T. These contractual constraints are based, in part, upon the trading price of AT&T's Liberty Media Group tracking stock, which has

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recently declined. Accordingly, the split off will likely improve our ability to borrow and raise debt capital from lenders at lower rates and on more favorable terms.

The Split Off Will Enable Us To More Efficiently Use Stock As Acquisition Currency. The split off will enable us to use our own stock as currency in acquiring, merging or partnering with other companies. Since the TCI merger, we have funded our strategic investments with shares of AT&T's Liberty Media Group tracking stock and cash. However, AT&T's Liberty Media Group tracking stock has generally traded at a discount compared to the fair market value of AT&T's Liberty Media Group assets, in part due to market perceptions about tracking stocks generally. Following the split off, it is expected that:

- our growth prospects will be enhanced by the removal of the regulatory restrictions discussed above;
- our market value will no longer be subject to any tracking stock discount imposed by the marketplace; and
- we will likely become a candidate for inclusion in a Standard & Poor's index which should generate incremental demand for our common stock from funds that, directly or indirectly, base their investment decisions on whether or not a company is included in such an index.

While we cannot assure you of the future trading price of our common stock, our complete separation from AT&T is expected to enable us to raise more funds per share in an equity offering and receive greater value per share in an acquisition transaction.

### SURRENDER OF SHARES OF AT&T'S LIBERTY MEDIA GROUP TRACKING STOCK

We will deliver to the holders of record of shares of AT&T's Liberty Media Group tracking stock on the redemption date a letter of transmittal containing written instructions for exchanging their shares for shares of our common stock. From and after the redemption date, letters of transmittal will also be available from the information agent.

Pursuant to AT&T's charter, from and after the redemption date, all rights of a holder of shares of AT&T's Liberty Media Group tracking stock shall cease, except for the right to receive shares of our common stock in exchange therefor. For example, a holder of shares of AT&T's Liberty Media Group tracking stock that does not surrender those shares for redemption following the redemption date shall not be entitled to receive dividends or distributions paid on our common stock until he surrenders his shares of

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AT&T's Liberty Media Group tracking stock for redemption to the exchange agent. From and after the redemption date, we and AT&T will be entitled to treat outstanding shares of AT&T's Liberty Media Group tracking stock that have not been surrendered for redemption as shares of our common stock for all relevant purposes.

SHARES OF AT&T'S LIBERTY MEDIA GROUP TRACKING STOCK MAY BE NOT BE SURRENDERED FOR REDEMPTION PRIOR TO THE REDEMPTION DATE.

### Information Agent

D.F. King & Co. has been appointed as the information agent for the split off. Questions and requests for assistance and requests for additional copies of this prospectus should be directed to the information agent at the address set

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forth on the cover of this prospectus. Shares should not be surrendered to the information agent.

### Transfer Taxes

Holders who surrender their shares in the redemption will not be obligated to pay any transfer taxes in connection with the split off.

### RESULTS OF THE SPLIT OFF

Upon consummation of the split off, we will be an independent public company owning and operating all of the businesses currently attributed to AT&T's Liberty Media Group. See "Business" for a discussion of those businesses. Immediately after the split off, we expect to have over 7,000 holders of record of shares of our common stock and approximately 2.6 billion shares of our common stock outstanding, based upon the number of record holders and outstanding shares of AT&T's Liberty Media Group tracking stock on February 28, 2001, and assuming no exercise of outstanding stock options or warrants. The actual number of shares of our common stock to be distributed will be determined on the redemption date.

For information regarding options to purchase our common stock that will be outstanding after the split off, see "Management."

### U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE SPLIT OFF

The following discussion summarizes those U.S. federal income tax consequences resulting from the split off that materially affect AT&T and the holders of AT&T's Liberty Media Group tracking stock. This discussion is based upon currently existing provisions of the Code, existing and proposed Treasury Regulations thereunder and current administrative rulings and court decisions, all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences to AT&T or the holders of AT&T's Liberty Media Group tracking stock as described in this prospectus.

Holders of AT&T's Liberty Media Group tracking stock should be aware that this discussion does not deal with all U.S. federal income tax considerations that may be relevant to particular stockholders in light of their particular circumstances, such as stockholders who are dealers in securities, banks, insurance companies, tax-exempt organizations and non-United States persons. In addition, the following discussion does not address the tax consequences of the split off under U.S. state or local and non-U.S. tax laws or the tax consequences of transactions effectuated prior to or after the split off (whether or not such transactions are undertaken in connection with the split off). ACCORDINGLY, HOLDERS OF AT&T'S LIBERTY MEDIA GROUP TRACKING STOCK ARE URGED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE AND LOCAL AND NON-U.S. TAX CONSEQUENCES OF THE SPLIT OFF TO THEM.

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It is a non-waivable condition to the split off that a private letter ruling from the Internal Revenue Service shall have been received, in form and substance reasonably satisfactory to us and AT&T, with regard to the U.S. federal income tax consequences of the split off to the effect that the split off will be treated as a tax-free exchange under Section 355 of the Code and that, accordingly, for U.S. federal income tax purposes:

- no gain or loss will be recognized by AT&T upon the exchange of our common stock for AT&T's Liberty Media Group tracking stock pursuant to

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the split off;

- no gain or loss will be recognized by, and no amount will be included in the income of, a holder of AT&T's Liberty Media Group tracking stock upon the receipt of our common stock in exchange for AT&T's Liberty Media Group tracking stock pursuant to the split off;
- the aggregate basis of our common stock in the hands of a former holder of AT&T's Liberty Media Group tracking stock will equal the aggregate basis of their shares of AT&T's Liberty Media Group tracking stock surrendered in exchange therefor; and
- the holding period of our common stock received in the split off will include the holding period of AT&T's Liberty Media Group tracking stock exchanged therefor, provided that the shares of AT&T's Liberty Media Group tracking stock were held as a capital asset on the date of the split off.

It is a non-waivable condition to the split off that such private letter ruling shall not have been revoked in whole or in part nor modified in any manner, in each case materially adverse to us, AT&T, or the holders of AT&T's Liberty Media Group tracking stock, and that all transactions described in the private letter ruling that are to be taken prior to the effective time of the split off shall have been taken prior to, and be in effect as of, the effective time of the split off.

Although the ruling relating to the qualification of the split off as a tax-free transaction is generally binding on the IRS, the continuing validity of the ruling is subject to factual representations and assumptions, including the representation that AT&T's Liberty Media Group tracking stock is stock of AT&T and not of Liberty. If any such factual representations or assumptions are incorrect or untrue in any material respect, the ruling may be invalidated. We and AT&T are not aware of any facts or circumstances that would cause such representations and assumptions to be incorrect or untrue in any material respect. Nevertheless, if AT&T consummates the split off and the split off is held to be taxable, both AT&T and the holders of AT&T's Liberty Media Group tracking stock would in all probability incur material tax liabilities. Under the tax sharing agreement between AT&T and us, we may be required to indemnify AT&T for certain tax liabilities that would be recognized by AT&T if the split off were taxable. Please see "Relationship Between AT&T and Our Company After the Split off -- Tax Sharing Agreement" for a more detailed discussion of the tax sharing agreement between AT&T and us.

Even if the split off otherwise qualifies for tax-free treatment under Section 355 of the Code, it may be disqualified as tax-free to AT&T under Section 355(e) of the Code if 50% or more of either the total combined voting power or the total fair market value of our stock or the stock of AT&T is acquired as part of a plan or series of related transactions that include the split off. For this purpose, any acquisitions of our stock or AT&T's stock within two years before or after the split off (excluding the TCI merger) are presumed to be part of such a plan, although we or AT&T may be able to rebut that presumption. If such an acquisition of our stock or AT&T's stock triggers the application of Section 355(e), AT&T would recognize taxable gain, but the split off would generally be tax-free to each former holder of AT&T's Liberty Media Group tracking stock. Under the tax sharing agreement between AT&T and us, we may be required to indemnify AT&T for certain tax liabilities that are

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triggered by an acquisition of our stock. Please see "Relationship Between AT&T and Our Company After the Split Off -- Tax Sharing Agreement" for a more detailed discussion of the tax sharing agreement between AT&T and us.

U.S. Treasury regulations require each former holder of AT&T's Liberty Media Group tracking stock that receives shares of our stock in the split off to attach to the stockholder's U.S. Federal income tax

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return for the year in which such stock is received a detailed statement setting forth such data as may be appropriate to show the applicability of Section 355 of the Code to the redemption. The information necessary to comply with this requirement will be sent to holders of AT&T's Liberty Media Group tracking stock together with the letter of transmittal to be used in surrendering their shares.

### LISTING AND TRADING OF OUR COMMON STOCK

There is currently no public market for our common stock. We have applied to list our Series A common stock and Series B common stock on the New York Stock Exchange under the symbols "LMC.A" and "LMC.B", respectively.

We cannot assure you as to the price at which our common stock will trade. The trading prices of our common stock after the split off may be less than, equal to or greater than the trading price of AT&T's Liberty Media Group tracking stock prior to the split off.

Shares of our common stock issued in redemption of AT&T's Liberty Media Group tracking stock will be freely transferable, except for shares received by people who may have a special relationship or affiliation with us. People who may be considered our affiliates after the split off generally include individuals or entities that control, are controlled by, or are under common control with us. This may include some or all of our officers and directors. Persons who are our affiliates will be permitted to sell their shares only pursuant to an effective registration statement under the Securities Act of 1933, as amended, or an exemption from the registration requirements of the Securities Act, such as exemptions afforded by Section 4(2) of the Securities Act or Rule 144 thereunder.

### REASON FOR FURNISHING THIS PROSPECTUS

We are furnishing this prospectus to provide information to holders of AT&T's Liberty Media Group tracking stock whose shares will be redeemed for shares of our common stock in the split off. It is not, and is not to be construed as, an inducement or encouragement to buy or sell any of our securities or those of AT&T. The information contained in this prospectus is believed by us to be accurate as of the date set forth on its cover. Changes may occur after that date, and we will not update the information except in the normal course of our public disclosure obligations and practices.

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### RISK FACTORS

#### FACTORS RELATING TO OUR SPLIT OFF FROM AT&T



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If the contribution and the split off do not qualify for tax-free treatment, holders of AT&T's Liberty Media Group tracking stock could incur significant tax liabilities, and we could incur a significant payment obligation to AT&T under the tax sharing agreement. It is a requirement of AT&T's charter that the split off be tax-free to the holders of AT&T's Liberty Media Group tracking stock. AT&T has received a private letter ruling from the Internal Revenue Service to the effect that, among other things, the contribution to us of the contributed assets and the distribution of our common stock in the split off will not be taxable to holders of AT&T's Liberty Media Group tracking stock or AT&T. It is a non-waivable condition to the split off that a private letter ruling from the Internal Revenue Service shall have been received to the effect that the split off will be treated as a tax-free exchange and that such ruling shall not have been revoked in whole or in part nor modified in any manner, in each case materially adverse to us, AT&T, or the holders of AT&T's Liberty Media Group tracking stock. Although the ruling relating to the qualification of the split off as a tax-free transaction is generally binding on the IRS, the continuing validity of the ruling is subject to the accuracy of factual information and factual representations made by AT&T and us that were provided to the Internal Revenue Service. If it is subsequently determined, for whatever reason, that the contribution or the split off did not qualify for tax-free treatment, holders of AT&T's Liberty Media Group tracking stock receiving our common stock in the split off and/or AT&T could incur significant tax liabilities. For a more complete discussion of the tax ruling and the tax consequences if the contribution and the split off are not tax-free, please see "The Split Off -- U.S. Federal Income Tax Consequences of the Split Off."

If the contribution and the split off do not qualify for tax-free treatment to AT&T, we may be required to indemnify and pay AT&T under our tax sharing agreement with AT&T for certain tax liabilities incurred by AT&T with respect to the contribution and the split off. For a more complete discussion of the allocation of taxes and liabilities between us and AT&T under the tax sharing agreement after the split off, please see "Relationship Between AT&T and Our Company After the Split Off -- Tax Sharing Agreement."

Because there has not been any public market for our common stock, you may not be able to sell your shares, following the split off, at or above the market price of AT&T's Liberty Media Group tracking stock prior to the split off. Although AT&T's Liberty Media Group tracking stock has been publicly traded since the TCI merger, there is no public market for our common stock. Because, among other things, our common stock will be a security of Liberty, rather than a security of AT&T, there can be no assurance that the public market for our common stock will be similar to the public market for AT&T's Liberty Media Group tracking stock. Ultimately, the value of each share of our common stock will be principally determined in the trading markets and could be influenced by many factors, including our operations, the growth and expansion of our businesses, investors' expectations of our prospects, our credit worthiness, trends and uncertainties affecting the industries in which we or our affiliates compete, future issuances and repurchases of our common stock and general economic and other conditions. The trading value of our common stock could be higher or lower than the trading value of AT&T's Liberty Media Group tracking stock, and we are unable to estimate whether such difference, whether favorable or unfavorable, will be material to the holders of our common stock.

### FACTORS RELATING TO LIBERTY

We depend on a limited number of potential customers for carriage of our programming services. The cable television and direct-to-home satellite industries are currently undergoing a period of consolidation. As a result, the number of potential buyers of our programming services and those of our business affiliates is decreasing. AT&T's cable television subsidiaries and affiliates,

which as a group comprise one of the two largest operators of cable television systems in the United States, are collectively the largest single customer of our programming companies. With respect to some of our programming services and those of our business affiliates, this is the case by a significant margin. The existing agreements between AT&T's cable television subsidiaries and affiliates and the program suppliers owned or

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affiliated with us were entered into prior to the TCI merger. There can be no assurance that our owned and affiliated program suppliers will be able to negotiate renewal agreements with AT&T's cable television subsidiaries and affiliates. Although AT&T has agreed to extend any existing affiliation agreement of ours and our affiliates that expires on or before March 9, 2004 to a date not before March 9, 2009, that agreement is conditioned on mutual most favored nation terms being offered and the arrangements being consistent with industry practice. For more information about our relationship with AT&T, see "Relationship Between AT&T and Our Company After the Split Off."

The liquidity and value of our interests in our business affiliates may be adversely affected by stockholders agreements and similar agreements to which we are a party. A significant portion of the equity securities we own is held pursuant to stockholder agreements, partnership agreements and other instruments and agreements that contain provisions that affect the liquidity, and therefore the realizable value, of those securities. Most of these agreements subject the transfer of the stock, partnership or other interests constituting the equity security to consent rights or rights of first refusal of the other stockholders or partners. In certain cases, a change in control of our company or of the subsidiary holding our equity interest will give rise to rights or remedies exercisable by other stockholders or partners, such as a right to initiate or require the initiation of buy/sell procedures. The split off is not a change of control event for these purposes. Some of our subsidiaries and business affiliates are parties to loan agreements that restrict changes in ownership of the borrower without the consent of the lenders. All of these provisions will restrict our ability to sell those equity securities and may adversely affect the price at which those securities may be sold. For example, in the event buy/sell procedures are initiated at a time when we are not in a financial position to buy the initiating party's interest, we could be forced to sell our interest at a price based upon the value established by the initiating party, and that price might be significantly less than what we might otherwise obtain.

We do not have the right to manage our business affiliates, which means we cannot 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 in which we have less than a majority voting interest. 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 varies from agreement to agreement. Although our board representation and veto rights may enable us to exercise influence over the management or policies of an affiliate and enable us to prevent the sale of assets by a business affiliate in which we own less than a majority voting interest or prevent it from paying dividends or making distributions to its stockholders or partners, they do not enable us to cause these actions to be taken.

Our business is subject to risks of adverse government regulation. Programming services, cable television systems, satellite carriers, television stations and internet companies are subject to varying degrees of regulation in the United States by the Federal Communications Commission and other entities. Such regulation and legislation are subject to the political process and have been in constant flux over the past decade. In addition, substantially every foreign country in which we have, or may in the future make,

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an investment regulates, in varying degrees, the distribution and content of programming services and foreign investment in programming companies and wireline and wireless cable communications, satellite, telephony and Internet services. 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. See "Business -- Regulatory Matters."

We could be unable in the future to obtain cash in amounts sufficient to service our financial obligations. Our ability to meet our financial obligations depends upon our ability to access cash. We are a holding company, and our sources of cash include our available cash balances, net cash from the operating activities of our wholly owned subsidiaries, dividends and interest from our investments, availability under credit facilities and proceeds from asset sales.

We obtained from one of our subsidiaries net cash of \$5 million in calendar year 2000, \$6 million in calendar year 1999 and \$5 million in calendar year 1998. We did not obtain cash, in the form of dividends, loans, advances or otherwise, from any of our other operating subsidiaries during those periods or from any of our subsidiaries during the first three months of 2001. The ability of our operating subsidiaries to pay

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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 do 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).

We may make significant capital contributions and loans to our subsidiaries and business affiliates to cover operating losses and fund development and growth, which could limit the amount of cash available to pay our own financial obligations or to make acquisitions or investments. The development of video programming, communications, technology and Internet businesses involves substantial costs and capital expenditures. As a result, many of our business affiliates have incurred operating and net losses to date and are expected to continue to incur significant losses for the foreseeable future. Our results of operations include our, and our consolidated subsidiaries', share of the net losses of their affiliates. The share of net losses amounted to \$1,302 million for the first three months of 2001, \$3,485 million for calendar year 2000 and \$970 million for calendar year 1999.

We may make significant capital contributions and loans to our existing and future subsidiaries and business affiliates to help cover their operating losses and fund the development and growth of their respective businesses and assets. We have assisted, and may in the future assist, our subsidiaries and business affiliates in their financing activities by guaranteeing bank and other financial obligations. At March 31, 2001, we had guaranteed various loans, notes

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payable, letters of credit and other obligations of certain of our subsidiaries and business affiliates totaling approximately \$1,681 million.

To the extent we make loans and capital contributions to our subsidiaries and business affiliates or we are required to expend cash due to a default by a subsidiary or business affiliate of any obligation we guarantee, there will be that much less cash available to us with which to pay our own financial obligations or make acquisitions or investments.

If we fail to meet required capital calls to a subsidiary or 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 parties to stockholder and partnership agreements 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 company, may have adverse consequences to us. These consequences may include, among others, the dilution of our equity interest in that company, the forfeiture of our right to vote or exercise other rights, the right of the other stockholders or partners to force us to sell our interest at less than fair value, the forced dissolution of the company to which we have made the commitment or, in some instances, a breach of contract action for damages against us. Our ability to meet capital calls or other capital or loan commitments is subject to our ability to access cash. See "-- We could be unable in the future to obtain cash in amounts sufficient to service our financial obligations" above.

We are subject to the risk of possibly becoming an investment company. Because we are a holding company and a significant portion of our assets consists of investments in companies in which we own less than a 50% interest, we run the risk of inadvertently becoming an investment company that is required to register under the Investment Company Act of 1940. Registered investment companies are subject to extensive, restrictive and potentially adverse regulation relating to, among other things, operating methods, management, capital structure, dividends and transactions with affiliates. Registered investment companies are not permitted to operate their business in the manner we operate our business, nor are registered investment companies permitted to have many of the relationships that we have with our affiliated companies.

To avoid regulation under the Investment Company Act, we monitor the value of our investments and structure transactions with an eye toward the Investment Company Act. As a result, we may structure transactions in a less advantageous manner than if we did not have Investment Company Act concerns, or we may avoid otherwise economically desirable transactions due to those concerns. In addition, events

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beyond our control, including significant appreciation or depreciation in the market value of certain of our publicly traded holdings, could result in our becoming an inadvertent investment company. If we were to become an inadvertent investment company, we would have one year to divest of a sufficient amount of investment securities and/or acquire other assets sufficient to cause us to no longer be an investment company.

If it were established that we are an unregistered investment company, there would be a risk, among other material adverse consequences, that we could become subject to monetary penalties or injunctive relief, or both, in an action brought by the SEC, that we would be unable to enforce contracts with third parties or that third parties could seek to obtain rescission of transactions with us undertaken during the period it was established that we were an unregistered investment company.

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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 restated certificate of incorporation and bylaws may discourage, delay or prevent a change in control of our company that a stockholder may consider favorable. These provisions include the following:

- 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.

Section 203 of the Delaware General Corporation Law and any stock option plan relating to our common stock may also discourage, delay or prevent a change in control of our company.

Our stock price may decline significantly because of stock market fluctuations that affect the prices of the companies in which we invest. The stock market has recently experienced significant price and volume fluctuations that have affected the market prices of common stock of Internet and other technology companies. We have investments in many Internet and technology companies. If market fluctuations cause the stock price of these companies to decline, our stock price may decline.

This prospectus contains forward looking statements concerning future events that are subject to risks, uncertainties and assumptions. Certain statements made in this prospectus under the captions entitled "Summary," "The Split Off," "Risk Factors," "Business" and "Management's Discussions and Analysis of Financial Condition and Results of Operations" and elsewhere in this prospectus are forward-looking statements. These forward-looking statements are based upon our current expectations and projections about future events. When used in this prospectus, the words "believe," "anticipate," "intend," "estimate," "expect" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. These forward-looking statements are subject to risks, uncertainties and assumptions about us and our subsidiaries and business affiliates, including, among other things, the following:

- general economic and business conditions and industry trends;
- the continued strength of the industries in which we are involved;
- uncertainties inherent in our proposed business strategies;
- our future financial performance, including availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in, or our failure or inability to comply with, government regulations and adverse outcomes from regulatory proceedings;

- changes in the nature of key strategic relationships with partners and business affiliates;
- rapid technological changes;
- our inability to obtain regulatory or other necessary approvals of any strategic transactions; and
- social, political and economic situations in foreign countries where we do business.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. In light of these risks, uncertainties and other assumptions, the forward-looking events discussed in this prospectus might not occur.

#### DIVIDEND POLICY

We do not anticipate paying any dividends on our common stock in the foreseeable future because we expect to retain our future earnings for use in the operation and expansion of our business. Our payment and amount of dividends, however, will be subject to the discretion of our board of directors and will depend, among other things, upon our results of operations, financial condition, cash requirements, future prospects and other factors which may be considered relevant by our board of directors.

#### CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2001, assuming that the split off occurred on that date. This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" and the consolidated financial statements and notes thereto included elsewhere in this prospectus.

	AS OF MARCH 31, 2001
	----- (AMOUNTS IN MILLIONS)
Cash and cash equivalents.....	\$ 2,089
Short-term investments.....	444
	-----
	2,533
	=====
Long-term debt (including current portion):	
Bank credit facilities.....	1,967
Senior Notes.....	742
Senior Debentures.....	1,486
Senior Exchangeable Debentures.....	854
Senior notes of subsidiary.....	185
Obligations under securities lending agreement.....	315

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Other debt.....	488
	-----
Total debt.....	6,037
Call option obligations(a).....	1,154
Stockholder's equity:	
Common stock(b).....	--
Additional paid-in capital.....	35,339
Accumulated other comprehensive losses net of taxes.....	(579)
Accumulated deficit.....	(688)
	-----
	34,072
Due from related parties.....	(25)
	-----
Total stockholder's equity.....	34,047
	-----
Total capitalization.....	\$41,238
	=====

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- (a) The call option obligation represents the fair value of the call option feature associated with our Senior Exchangeable Debentures. In connection with the adoption of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", the call option obligation was separated from the Senior Exchangeable Debentures and recorded separately in our financial statements at fair value. Changes in the fair value of the call option obligations subsequent to January 1, 2001 are recognized as unrealized gains (losses) in our consolidated statements of operations.
- (b) We will have outstanding, immediately after the split off, approximately 2,377 million shares of Series A common stock and 212 million shares of Series B common stock, based on the number of shares of AT&T's Class A and Class B Liberty Media Group tracking stock outstanding as of February 28, 2001. In the split off, each share of AT&T's Liberty Media Group tracking stock will be redeemed for one share of the corresponding series of our common stock.

SELECTED FINANCIAL INFORMATION

In the table below, we provide you with selected historical consolidated financial data of Liberty Media Corporation. This selected historical consolidated financial data includes the effect of the contributed assets. We derived the historical consolidated financial data from our consolidated financial statements (which have been restated to include the effects of the contributed assets) included elsewhere in this prospectus.

On May 7, 2001, in anticipation of the split off, AT&T effected the contribution of the contributed assets to Liberty Media Corporation. These assets consist primarily of the following:

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- a preferred stock and common stock interest in a subsidiary of IDT Corporation, a multinational telecommunications services provider; and
- an approximate 8% indirect common equity interest in Liberty Digital, Inc., one of our consolidated subsidiaries.

These contributions, which represent only a portion of our assets, are being accounted for in a manner similar to a pooling of interests and, accordingly, the financial statements of Liberty Media Corporation for periods prior to the contributions have been restated to include the financial position and results of operations of the contributed assets (including the predecessor assets to our investment in the subsidiary of IDT) from the dates of their acquisition by AT&T. The predecessor assets included a preferred stock interest and common stock warrants in ICG Communications, Inc., a competitive local exchange telephone company, and a common equity interest in Teligent, Inc., a full services facilities based communications company.

We have been a wholly owned subsidiary of TCI since August 1994. On March 9, 1999, AT&T acquired TCI in a merger transaction. For financial reporting purposes, the merger of AT&T and TCI is deemed to have occurred on March 1, 1999. In connection with the merger, the assets and liabilities of Liberty were adjusted to their respective fair values pursuant to the purchase method of accounting. For periods prior to March 1, 1999, the assets and liabilities of Liberty and the related consolidated results of operations are referred to below as "Old Liberty," and for periods subsequent to February 28, 1999, the assets and liabilities of Liberty and the related consolidated results of operations are referred to as "New Liberty." In connection with the merger, TCI effected an internal restructuring as a result of which certain assets and approximately \$5.5 billion in cash were contributed to us.

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The financial data presented below is not necessarily comparable from period to period as a result of several transactions, including acquisitions and dispositions of consolidated subsidiaries. For this and other reasons, you should read the selected historical financial data provided below in conjunction with our consolidated financial statements and accompanying notes beginning on page F-1 and the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 21.

NEW LIBERTY					OL
THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000	YEAR ENDED DECEMBER 31, 2000	TEN MONTHS ENDED DECEMBER 31, 1999	TWO MONTHS ENDED FEBRUARY 28, 1999	-
-----					-----
(UNAUDITED)					(IN
(IN MILLIONS)					)
OPERATING DATA:					
Revenue.....	\$ 504	\$ 235	\$ 1,526	\$ 729	\$ 235



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Operating income					
(loss).....	(207)	(83)	436	(2,214)	(158)
Interest expense.....	(133)	(439)	(399)	(134)	(25)
Share of losses of					
affiliates, net.....	(1,302)	(382)	(3,485)	(904)	(66)
Gain on dispositions,					
net.....	810	2,441	7,340	4	14
Net earnings (loss).....	(152)	939	1,485	(2,021)	(70)
BALANCE SHEET DATA (AT					
PERIOD END):					
Cash and cash					
equivalents.....	\$ 2,089	\$ 2,177	\$ 1,295	\$ 1,714	\$ 31
Short-term investments...	444	525	500	378	125
Investments in					
affiliates.....	19,222	17,040	20,464	15,922	3,971
Investments in					
available-for-sale					
securities and					
others.....	19,681	34,564	19,035	28,593	11,974
Total assets.....	54,402	68,214	54,268	58,658	16,886
Debt including current					
portion.....	6,037	6,810	6,363	3,277	2,087
Stockholder's equity.....	34,047	41,940	34,290	38,435	9,449

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

The following discussion and analysis provides information concerning our results of operations and financial condition as well as the results of operations and financial condition of certain other subsidiaries and assets of AT&T that are attributed to AT&T's Liberty Media Group. This discussion should be read in conjunction with our accompanying consolidated financial statements and the notes thereto.

AT&T's Liberty Media Group common stock is a tracking stock designed to reflect the economic performance of the businesses and assets of AT&T attributed to its Liberty Media Group. We are included in the Liberty Media Group. Following the contribution of the contributed assets described below, the businesses and assets of Liberty and its subsidiaries constitute all of the businesses and assets of the Liberty Media Group.

AT&T currently owns all the outstanding shares of Class A common stock, Class B common stock and Class C common stock of Liberty Media Corporation. Prior to the split off, Liberty will recapitalize its common stock and increase its authorized number of shares. Liberty's Class A and Class B common stock will be recapitalized as Liberty's Series A common stock, and Liberty's Class C common stock will be recapitalized as Liberty's Series B common stock. In the split off, each share of AT&T's Liberty Media Group Class A and Class B tracking stock will be exchanged for one share of our Series A common stock and Series B common stock, respectively. Upon completion of the split off, Liberty will no longer be a subsidiary of AT&T, and there will be no outstanding shares of AT&T's Liberty Media Group tracking stock. The split off will be accounted for at historical cost.

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On May 7, 2001, in anticipation of the split off, AT&T effected the contribution of the contributed assets to Liberty Media Corporation. These assets consist primarily of the following:

- a preferred stock and common stock interest in a subsidiary of IDT Corporation, a multinational telecommunications services provider; and
- an approximate 8% indirect common equity interest in Liberty Digital, Inc., one of our consolidated subsidiaries.

The contributions, which represent only a portion of our assets, are being accounted for in a manner similar to a pooling of interests and, accordingly, the financial statements of Liberty Media Corporation for periods prior to the contributions have been restated to include the financial position and results of operations of the contributed assets (including the predecessor assets to our investment in the subsidiary of IDT) from the dates of their acquisition by AT&T. The predecessor assets include a preferred stock interest and common stock warrants in ICG Communications, Inc., a competitive local exchange telephone company, and a common equity interest in Teligent, Inc., a full service facilities based communications company.

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

Liberty's most significant consolidated subsidiaries at March 31, 2001, were Starz Encore Group LLC, Liberty Livewire Corporation and On Command Corporation. These businesses are either wholly or majority-owned and, accordingly, the results of operations of these businesses are included in the consolidated results of Liberty for the periods in which they were wholly or majority-owned.

A significant portion of Liberty's operations are conducted through entities in which Liberty holds a 20%-50% ownership interest. These businesses are accounted for using the equity method of accounting and, accordingly, are not included in the consolidated results of Liberty except as they affect Liberty's interest in earnings or losses of affiliates for the period in which they were accounted for using the equity

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method. Included in Liberty's investments in affiliates at March 31, 2001 were USA Networks, Inc., Discovery Communications, Inc., Gemstar-TV Guide

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International, Inc., QVC, Inc., UnitedGlobalCom, Inc. and Telewest Communications plc.

Liberty holds interests in companies that are neither consolidated subsidiaries nor affiliates accounted for using the equity method. The most significant of these include AOL Time Warner, Sprint Corporation, News Corp. and Motorola, Inc., which are classified as available-for-sale securities and are carried at fair value. Realized gains and losses are determined on a specific-identification basis.

AT&T's acquisition of TCI by merger on March 9, 1999, has been accounted for using the purchase method. Accordingly, Liberty's assets and liabilities have been recorded at their respective fair values resulting in a new cost basis. For financial reporting purposes, the TCI merger is deemed to have occurred on March 1, 1999. Accordingly, for periods prior to March 1, 1999, the assets and liabilities of Liberty and the related consolidated financial statements are sometimes referred to herein as "Old Liberty," and for periods subsequent to February 28, 1999, the assets and liabilities of Liberty and the related consolidated financial statements are sometimes referred to herein as "New Liberty." "Liberty" refers to both New Liberty and Old Liberty.

### SUMMARY OF OPERATIONS -- MOST RECENT INTERIM PERIOD

#### GENERAL INFORMATION

Starz Encore Group provides premium programming distributed by cable, direct-to-home satellite and other distribution media throughout the United States. Liberty Livewire provides sound, video and ancillary post-production and distribution services to the motion picture and television industries in the United States and Europe. On Command provides in-room on-demand video entertainment and information services to the domestic lodging industry. Due to the significance of their operations and to enhance the reader's understanding, separate financial data has been provided below for Starz Encore Group, Liberty Livewire and On Command for the periods in which they were consolidated. Included in the other category are Liberty's other consolidated subsidiaries and corporate expenses. Some of Liberty's significant other consolidated subsidiaries include Liberty Digital, Inc., Pramer S.C.A. and Liberty Cablevision of Puerto Rico. Liberty Digital is principally engaged in programming, distributing and marketing digital and analog music services to homes and businesses. Pramer is an owner and distributor of cable programming services in Argentina. Liberty Cablevision of Puerto Rico is a provider of cable television services in Puerto Rico. Liberty holds significant equity investments, the results of which are not a component of operating income, but are discussed below under "Investments in Affiliates Accounted for Using the Equity Method." Other items of significance are discussed separately below.

QUARTER ENDED	% OF	QUARTER ENDED	% OF
MARCH 31,	REVENUE	MARCH 31,	REVENUE
2001		2000	

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	DOLLAR AMOUNTS IN MILLIONS			
Starz Encore Group				
Revenue.....	\$ 209	100%	\$ 176	100%
Operating, selling, general and administrative....	132	63	113	64
Stock compensation.....	2	1	--	--
Depreciation and amortization.....	39	19	41	23
	-----	---	-----	-----
Operating income.....	\$ 36	17%	\$ 22	13%
	=====	===	=====	=====
Liberty Livewire				
Revenue.....	\$ 155	100%	\$ --	--
Operating, selling, general and administrative....	124	80	--	--
Stock compensation.....	5	3	--	--
Depreciation and amortization.....	35	23	--	--
	-----	---	-----	-----
Operating loss.....	\$ (9)	(6)%	\$ --	--
	=====	===	=====	=====
On Command				
Revenue.....	\$ 62	100%	\$ --	--
Operating, selling, general and administrative....	51	82	--	--
Depreciation and amortization.....	21	34	--	--
	-----	---	-----	-----
Operating loss.....	\$ (10)	(16)%	\$ --	--
	=====	===	=====	=====

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	QUARTER ENDED MARCH 31, 2001	% OF REVENUE	QUARTER ENDED MARCH 31, 2000	% OF REVENUE
	DOLLAR AMOUNTS IN MILLIONS			
Other				
Revenue.....	\$ 78	(a)	\$ 59	(
Operating, selling, general and administrative....	92		61	
Stock compensation.....	56		(23)	
Depreciation and amortization.....	154		126	
	-----		-----	
Operating loss.....	\$ (224)		\$ (105)	
	=====		=====	

(a)Not meaningful.

Certain of Liberty's consolidated subsidiaries and equity affiliates (referred to as programming affiliates) are dependent on the entertainment industry for entertainment, educational and informational programming. A

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prolonged downturn in the economy could have a negative impact on the revenue and operating income of the programming affiliates. Such an event could reduce the development of new television and motion picture programming, thereby adversely impacting the programming affiliates' supply of service offerings. In addition, a soft economy could reduce consumer disposable income and consumer demand for the products and services of the programming affiliates.

THREE MONTHS ENDED MARCH 31, 2001, COMPARED TO MARCH 31, 2000

### CONSOLIDATED SUBSIDIARIES

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

Revenue increased to \$209 million for the three months ended March 31, 2001 from \$176 million for the corresponding quarter of 2000, primarily due to increases in subscription units from all forms of distribution. These increases are due to subscription unit increases of 68% for Encore and its Thematic Multiplex, and 17% for STARZ!, as compared to the same period in 2000.

Operating expenses increased 17% for the three months ended March 31, 2001, as compared to the corresponding period in 2000. Such increase is primarily due to an increase in programming expense partially offset by reduced affiliate marketing support and national branding expense.

Liberty expects Starz Encore Group to generate an operating loss during 2001 due to continued stock compensation and depreciation and amortization expenses. It is expected that this operating loss will decrease compared to 2000 due to improved earnings before interest, taxes, depreciation and amortization.

Liberty Livewire. On April 10, 2000, Liberty acquired all of the outstanding common stock of Four Media Company in exchange for AT&T's Class A Liberty Media Group tracking stock and cash. On June 9, 2000, Liberty acquired a

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controlling interest in The Todd-AO Corporation in exchange for AT&T's Class A Liberty Media Group tracking stock. Immediately following the closing of such transaction, Liberty contributed 100% of the capital stock of Four Media Company to Todd-AO in exchange for additional Todd-AO common stock. Following these transactions, Todd-AO changed its

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name to Liberty Livewire. On July 19, 2000, Liberty purchased all of the assets relating to the post-production, content and sound editorial businesses of Soundelux Entertainment Group and contributed such assets to Liberty Livewire for additional Liberty Livewire stock. Immediately following the contributions, Liberty owned approximately 88% of the equity and controlled approximately 99% of the voting power of Liberty Livewire, and as a result, began to consolidate the operations of Liberty Livewire during the quarter ended June 30, 2000. Liberty Livewire is dependent on the television and movie production industries for a substantial portion of its revenue. A strike by certain entertainment guilds could have a significant negative impact on Liberty Livewire's revenue during the periods affected by such strike.

On Command. On March 28, 2000, Liberty completed its cash tender offer for the outstanding common stock of Ascent. Approximately 85% of the outstanding shares of common stock of Ascent were tendered in the offer. On June 28, 2000, Liberty acquired the remaining 15% of Ascent. On Command is a majority owned subsidiary of Ascent. On Command's principal business is providing pay-per-view entertainment and information services to the domestic lodging industry. Upon completion of the tender offer, Liberty consolidated the operations of On Command. Liberty expects On Command to generate an operating loss in 2001.

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

Revenue increased 32% to \$78 million for the three months ended March 31, 2001, as compared to \$59 million for the corresponding period in 2000. Such increase is due to revenue growth at Liberty Digital, as well as revenue from Ascent Network Services, Inc., which was acquired in March 2000, as part of the Ascent transaction.

Operating, selling, general and administrative expenses increased 51% to \$92 million for the three months ended March 31, 2001 compared to \$61 million for the same period in 2000. Included in the \$92 million for 2001 is \$11 million of expenses related to the split off. In addition, the increase in expenses for the three months ended March 31, 2001 is due to (i) start up expenses of True Position, Inc. which was acquired on January 14, 2000, (ii) increases in expenses of Liberty Digital and (iii) expenses related to Ascent Network Services.

Depreciation and amortization for the three months ended March 31, 2001 increased 22%, as compared to the corresponding period in 2000. Such increase is due to amortization of intangibles recorded in connection with the acquisition

of Ascent.

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

Other Income and Expense. Interest expense for the three months ended March 31, 2001 and March 31, 2000 was \$133 million and \$439 million, respectively. Liberty adopted Statement of Financial Accounting Standards No. 133 effective January 1, 2001. Statement 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Prior to the adoption of Statement 133, the carrying amount of Liberty's senior exchangeable debentures was adjusted based on the fair value of the securities into which the debentures were exchangeable. Increases or decreases in the value of such securities above the principal amount of the senior exchangeable debentures were recorded as an adjustment to interest expense in the consolidated statements of operations and comprehensive earnings. Such adjustments aggregated \$364 million for the three months ended March 31, 2000. Excluding such effect, interest expense increased from \$75 million to \$133 million due to increased borrowings during 2000 and the first quarter of 2001.

Dividend and interest income for the three months ended March 31, 2001 and 2000 was \$57 million and \$79 million, respectively. The decrease in dividend and interest income during the three months ended March 31, 2001 is primarily attributed to the use of Liberty's cash balance in investing activities, combined with the elimination of \$5 million in dividend income due to the merger of AOL and Time Warner.

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During the three months ended March 31, 2001, Liberty determined that certain of its other investments experienced other-than-temporary declines in value. As a result, the carrying amounts of such investments were adjusted to their respective fair values at March 31, 2001. These adjustments, which included a \$127 million adjustment to Liberty's investment in Antec Corporation, resulted in a total charge of \$304 million, before deducting a deferred tax benefit of \$120 million.

Aggregate gains from dispositions during the three month periods ended March 31, 2001 and 2000 were \$810 million and \$2,441 million, respectively. Included in gains from dispositions in 2001 are \$570 million related to the merger of Viacom and BET, and \$253 million related to the merger of AOL and Time Warner. Included in the 2000 gains from dispositions is \$2.2 billion related to the acquisition of General Instruments by Motorola. See note 6 to Liberty's consolidated financial statements for the three months ended March 31, 2001 for a discussion of the foregoing transactions.

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INVESTMENTS IN AFFILIATES ACCOUNTED FOR USING THE EQUITY METHOD

Liberty's share of losses of affiliates for the three months ended March 31, 2001 and 2000 was \$1,302 million and \$382 million, respectively. A summary of Liberty's share of earnings (losses) of affiliates is presented below:

	PERCENTAGE OWNERSHIP	THREE MONTHS ENDED MARCH 31,	
		2001	2000
AMOUNTS IN MILLIONS			
Gemstar.....	21%	\$ (897)	\$ --
Discovery.....	49%	(65)	(63)
Telewest.....	25%	(131)	(87)
USAI and related investments.....	21%	(13)	(7)
QVC.....	42%	2	(1)
UnitedGlobalCom.....	11%	(45)	(50)
Teligent, Inc.....	34%	(85)	(71)
Other.....	various	(68)	(103)
		-----	-----
		\$ (1,302)	\$ (382)
		=====	=====

At March 31, 2001, the aggregate carrying amount of Liberty's investments in its affiliates exceeded Liberty's proportionate share of its affiliates' net assets by \$14 billion. Such excess is being amortized over estimated useful lives ranging from 2 to 20 years. Amortization aggregating \$349 million and \$184 million for the three months ended March 31, 2001 and 2000, respectively, is included in share of losses of affiliates. Liberty expects to continue to record share of losses in its affiliates for the foreseeable future principally due to the significant levels of excess basis amortization that is included in each affiliate's share of losses.

Gemstar. Liberty's share of Gemstar's net loss was \$897 million for the three months ended March 31, 2001 including excess basis amortization of \$109 million. On July 12, 2000, TV Guide and Gemstar completed a merger whereby Gemstar acquired TV Guide. As a result of this transaction, 133 million shares of TV Guide held by Liberty were exchanged for 87.5 million shares of Gemstar common stock. At March 31, 2001, Liberty owned approximately 21% of Gemstar.

On May 2, 2001, Liberty entered into a transaction with News Corp. to exchange 70.7 million shares of Gemstar held by Liberty for 121.5 million News Corp. American Depositary Shares representing preferred limited voting ordinary shares of News Corp. The fair value of the securities received by Liberty is less than the expected carrying value of the Gemstar shares on the date of the



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exchange. As a result of the inherent loss on the exchange, Liberty recognized an other-than-temporary decline in value adjustment on all of its Gemstar interests in the first quarter of 2001. Such adjustment (\$764 million) is included in share of losses of Gemstar.

Telewest. Liberty's share of Telewest's net loss increased to \$131 million for the three months ended March 31, 2001 from \$87 million for the three months ended March 31, 2000, including excess basis

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amortization of \$50 million and \$22 million for 2001 and 2000, respectively. Liberty's share of Telewest's net loss increased due to the increase in excess basis amortization combined with a \$46 million increase in Telewest's net loss. Telewest's net loss increased due to increased interest expense and increased depreciation and amortization expense resulting from acquisitions.

### SUMMARY OF OPERATIONS -- ANNUAL PERIODS

The discussion of our operations for the annual periods includes Starz Encore Group, Liberty Livewire and On Command. Included in the other category are Liberty's other consolidated subsidiaries and corporate expenses. Liberty's significant other consolidated subsidiaries include Liberty Digital, Pramer and Liberty Cablevision of Puerto Rico. The results of TV Guide are included for the two months ended February 28, 1999, after which time Liberty began accounting for this investment under the equity method of accounting. Liberty holds significant equity investments, the results of which are not a component of operating income, but are discussed below under "Investments in Affiliates Accounted for Under the Equity Method." Other items of significance are discussed separately below.

### GENERAL INFORMATION

Liberty's consolidated statements of operations include information reflecting the year ended December 31, 2000 and the ten month period ended December 31, 1999 which represent the operations of New Liberty for periods subsequent to the TCI merger. The two month period ended February 28, 1999 and the year ended December 31, 1998 represent the operations of Old Liberty for periods prior to the TCI merger.

	NEW LIBERTY				OLD LIB
YEAR ENDED DECEMBER 31, 2000	% OF TOTAL REVENUE	TEN MONTHS ENDED DECEMBER 31, 1999	% OF TOTAL REVENUE	TWO MO ENDE FEBRUAR 199	
(DOLLAR AMOUNTS IN MILLIONS)					
Starz Encore Group					
Revenue.....	\$ 733	100%	\$ 539	100%	
Operating, selling, general and				\$ 10	

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administrative.....	498	68	415	77	6
Stock compensation.....	163	22	283	53	
Depreciation and amortization.....	157	21	148	27	
	-----	---	-----	---	---
Operating (loss) income.....	\$ (85)	(11)%	\$ (307)	(57)%	\$ 3
	=====	===	=====	===	=====
Liberty Livewire					
Revenue.....	\$ 295	100%	\$ --	--	\$ --
Operating, selling, general and administrative.....	251	85	--	--	--
Stock compensation.....	(42)	(14)	--	--	--
Depreciation and amortization.....	55	19	--	--	--
	-----	---	-----	---	-----
Operating income.....	\$ 31	10%	\$ --	--	\$ --
	=====	===	=====	===	=====
On Command					
Revenue.....	\$ 200	100%	\$ --	--	\$ --
Operating, selling, general and administrative.....	151	76	--	--	--
Depreciation and amortization.....	65	32	--	--	--
	-----	---	-----	---	-----
Operating loss.....	\$ (16)	(8)%	\$ --	--	\$ --
	=====	===	=====	===	=====
Other					
Revenue.....	\$ 298	(a)	\$ 190	(a)	\$ 13
Operating, selling, general and administrative.....	286		181		12
Stock compensation.....	(1,071)		1,502		18
Depreciation and amortization.....	577		414		2
	-----		-----		-----
Operating income (loss).....	\$ 506		\$ (1,907)		\$ (19)
	=====		=====		=====

OLD LIBERTY

	% OF TOTAL REVENUE	YEAR ENDED DECEMBER 31, 1998	% OF TOTAL REVENUE
	-----	-----	-----
(DOLLAR AMOUNTS IN MILLIONS)			
Starz Encore Group			
Revenue.....	100%	\$ 541	100%
Operating, selling, general and administrative.....	59	445	82
Stock compensation.....	3	58	11
Depreciation and amortization.....	1	8	1
	---	-----	---
Operating (loss) income.....	37%	\$ 30	6%
	=====	=====	=====
Liberty Livewire			
Revenue.....	--	\$ --	--
Operating, selling, general and administrative.....	--	--	--
Stock compensation.....	--	--	--
Depreciation and amortization.....	--	--	--
	---	-----	---
Operating income.....	--	\$ --	--
	=====	=====	=====
On Command			

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Revenue.....	--	\$ --	--
Operating, selling, general and administrative.....	--	--	--
Depreciation and amortization.....	--	--	--
	----	-----	----
Operating loss.....	--	\$ --	--
	===	=====	===
Other			
Revenue.....	(a)	\$ 818	(a)
Operating, selling, general and administrative.....		698	
Stock compensation.....		460	
Depreciation and amortization.....		121	
		-----	
Operating income (loss).....		\$ (461)	
		=====	

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(a) Not meaningful.

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In order to provide a meaningful basis for comparing the years ended December 31, 2000, 1999 and 1998, the operating results of New Liberty for the ten months ended December 31, 1999 have been combined with the operating results of Old Liberty for the two months ended February 28, 1999, for purposes of the following table and discussion. Depreciation, amortization and certain other line items included in the operating results presented below are not comparable between periods as a result of the effects of purchase accounting adjustments related to the TCI merger. The combining of predecessor and successor accounting periods is not permitted by generally accepted accounting principles.

	COMBINED LIBERTY			
	YEAR ENDED DECEMBER 31, 2000	% OF TOTAL REVENUE	YEAR ENDED DECEMBER 31, 1999	% OF TOTAL REVENUE
	-----	-----	-----	-----
	(DOLLAR AMOUNTS IN MILLIONS)			
Starz Encore Group				
Revenue.....	\$ 733	100%	\$ 640	100%
Operating, selling, general and administrative.....	498	68	475	74
Stock compensation.....	163	22	286	45
Depreciation and amortization.....	157	21	149	23
	-----	---	-----	---
Operating (loss) income.....	\$ (85)	(11)%	\$ (270)	(42)%
	=====	===	=====	===
Liberty Livewire				
Revenue.....	\$ 295	100%	\$ --	--
Operating, selling, general and administrative.....	251	85	--	--
Stock compensation.....	(42)	(14)	--	--
Depreciation and amortization.....	55	19	--	--
	-----	---	-----	---
Operating income.....	\$ 31	10%	\$ --	--
	=====	===	=====	===

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On Command				
Revenue.....	\$ 200	100%	\$ --	--
Operating, selling, general and administrative.....	151	76	--	--
Depreciation and amortization.....	65	32	--	--
	-----	----	-----	----
Operating loss.....	\$ (16)	(8)%	\$ --	--
	=====	====	=====	=====
Other				
Revenue.....	\$ 298	(a)	\$ 324	(a)
Operating, selling, general and administrative.....	286		309	
Stock compensation.....	(1,071)		1,682	
Depreciation and amortization.....	577		435	
	-----		-----	
Operating income (loss).....	\$ 506		\$ (2,102)	
	=====		=====	

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(a) Not meaningful.

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YEAR ENDED DECEMBER 31, 2000, COMPARED TO DECEMBER 31, 1999

CONSOLIDATED SUBSIDIARIES

Starz Encore Group. Revenue increased to \$733 million in 2000 from \$640 million in 1999. Revenue from AT&T Broadband increased 11% during 2000 compared to the same period of 1999, pursuant to the terms of the AT&T/Starz Encore Group affiliation agreement. As AT&T's acquisition of MediaOne did not close until June 2000, the increase in revenue from AT&T Broadband only reflects the 20% increase in the contracted payment required under the AT&T/Starz Encore Group affiliation agreement for six and one-half months of 2000. Under this agreement, the amount paid by AT&T Broadband does not vary with the number of subscription units from AT&T Broadband unless such variations in subscription units are due to acquisitions or dispositions of cable systems, as discussed above. This category also includes revenue from cable systems that have been contributed by AT&T to joint ventures and are subject to the AT&T/ Starz Encore Group affiliation agreement. Revenue from cable affiliates other than AT&T Broadband increased 33% during 2000, compared to 1999 due to increases in subscription units for Encore and STARZ! services. MOVIEplex and Thematic Multiplex subscribers from cable affiliates other than AT&T Broadband increased by 15% and 239%, respectively, during 2000 compared to 1999, contributing to the increase in revenue. Revenue from satellite providers and other distribution technologies increased 7% during 2000, due to 17%, 26% and 51% increases in STARZ!, Encore and Thematic Multiplex subscription units, respectively. Revenue from satellite providers and other distribution technologies grew at a slower rate than subscription units due to contractual incentives.

Operating, selling, general and administrative expenses increased by 5% during 2000 as compared to 1999, primarily due to an increase in programming expenses. Programming expenses increased due to an increase in programming license fees resulting from increased use of higher quality first-run films from certain movie studios. The increase in programming expense was partially offset by reduced spending on affiliate marketing and national branding efforts.

Depreciation and amortization increased from \$149 million during 1999 to

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\$157 million during 2000. The increase was primarily the result of purchase accounting adjustments being in effect for the full year 2000 compared to only the last ten months of 1999.

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

Liberty expects Starz Encore Group to generate an operating loss during 2001 due to continued stock compensation and depreciation and amortization expenses. It is expected that this operating loss will decrease compared to 2000 due to improved earnings before interest, taxes, depreciation and amortization (Operating Cash Flow).

Liberty Livewire. On April 10, 2000, Liberty acquired all of the outstanding common stock of Four Media Company in exchange for AT&T Class A Liberty Media Group common stock and cash. On June 9, 2000 Liberty acquired a controlling interest in The Todd-AO Corporation in exchange for AT&T Class A Liberty Media Group common stock. Immediately following the closing of such transaction, Liberty contributed 100% of the capital stock of Four Media Company to Todd-AO in exchange for additional Todd-AO common stock. Following these transactions, Todd-AO changed its name to Liberty Livewire. On July 19, 2000, Liberty purchased all of the assets relating to the post production, content and sound editorial businesses of Soundelux Entertainment Group. Immediately following such transaction, the assets of Soundelux were contributed to Liberty Livewire for additional Liberty Livewire stock. Following these transactions, Liberty owned approximately 88% of the equity and controlled approximately 99% of the voting power of Liberty Livewire, and as a result, began to consolidate the operations of Liberty Livewire during the quarter ended June 30, 2000.

On Command. On March 28, 2000, Liberty announced that it had completed its cash tender offer for the outstanding common stock of Ascent Entertainment Group, Inc. Approximately 85% of the

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outstanding shares of common stock of Ascent were tendered in the offer. On June 8, 2000, Liberty completed its acquisition of 100% of Ascent. On Command is a majority-owned subsidiary of Ascent. On Command's principal business is providing pay-per-view entertainment and information services to the lodging industry. Upon completion of the tender offer, Liberty consolidated the operations of On Command. On Command's revenue could be negatively impacted by a protracted strike by certain entertainment guilds as the amount of programming available to On Command could be negatively impacted, thereby potentially reducing purchases of pay-per-view entertainment services by consumers.

Other. Included in this information are the results of Liberty's other consolidated subsidiaries and corporate expenses. Revenue decreased 8% to \$298 million for 2000 as compared to \$324 million in 1999 primarily due to the deconsolidation of TV Guide on March 1, 1999, which accounted for \$97 million of the decrease. The effect of the deconsolidation of TV Guide was partially offset by a \$12 million increase in revenue at Pramer, a \$20 million increase in revenue at Liberty Digital and a \$12 million increase in revenue at other

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international subsidiaries. Ascent Network Services, Inc. which was acquired during March 2000 as part of the Ascent transaction, also contributed \$17 million in additional revenue.

Operating, selling, general and administrative expenses decreased 7% to \$286 million for 2000 as compared to \$309 million for 1999. The decrease in expenses is primarily due to the deconsolidation of TV Guide, which accounted for \$76 million of the decrease. The effect of the TV Guide deconsolidation was offset by start up expenses of \$26 million at TruePosition, Inc. which was acquired on January 14, 2000 as part of the Associated Group transaction, increased expenses of \$9 million at each of Pramer and Liberty Digital, and \$11 million of expenses associated with the acquisition of Ascent Network Services.

Depreciation and amortization increased \$142 million to \$577 million for 2000 from \$435 million for 1999. The increase was a result of the effects of purchase accounting adjustments related to the TCI merger and other acquisitions.

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

Other Income and Expense. Interest expense was \$399 million, \$134 million and \$25 million for the year ended December 31, 2000, the ten month period ending December 31, 1999 and the two month period ending February 28, 1999, respectively. The increase in interest expense during 2000 was a result of increased borrowings by Liberty during the second half of 1999 and the first quarter of 2000.

The carrying amount of the senior exchangeable debentures is adjusted based on the fair value of the securities into which the debentures are exchangeable. Increases or decreases in the value of such securities above the principal amount of the senior exchangeable debentures (the Contingent Portion) are recorded as adjustments to interest expense in the consolidated statements of operations and comprehensive earnings. If the value of the underlying securities decreases below the principal amount of the senior exchangeable debentures there is no effect on the principal amount of such debentures.

Dividend and interest income was \$301 million, \$242 million and \$10 million for the year ended December 31, 2000, the ten month period ended December 31, 1999 and the two month period ended February 28, 1999, respectively. The increase in dividend and interest income during the year ended December 31, 2000 primarily represents interest earned on the cash collateral balance associated with the securities lending agreement, increased dividends from investments in News Corp. and Motorola and interest earned on cash balances at Ascent and Liberty Satellite & Technology, Inc. (LSAT).

During the year ended December 31, 2000, Liberty determined that certain of its investments experienced other than temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values at December 31, 2000 based primarily on recent quoted market prices. These adjustments are reflected as impairment of investments in the consolidated statements of

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operations. The following table identifies the realized losses attributable to each of the individual investments as follows (amounts in millions):

INVESTMENT -----	YEAR ENDED DECEMBER 31, 2000 -----
Motorola.....	\$1,276
Primedia .....	103
Others.....	84
	-----
	\$1,463
	=====

Aggregate gains from dispositions during the year ended December 31, 2000, the ten month period ended December 31, 1999 and the two month period ended February 28, 1999 were \$7,340 million, \$4 million and \$14 million, respectively. Liberty recognized a gain of \$2,233 million during the year ended December 31, 2000, in connection with the acquisition of General Instrument by Motorola. Liberty also recognized a \$211 million gain during the year ended December 31, 2000, in connection with the exchange of Sprint PCS Group stock, valued at \$300 million, for a preferred stock interest in LSAT. Liberty recognized a gain of \$649 million during the year ended December 31, 2000, in connection with the acquisition of Flextech Limited by Telewest. Liberty recognized a gain of \$4,391 million during the year ended December 31, 2000 in connection with the acquisition of TV Guide by Gemstar. In all of the above exchange transactions, the gains were calculated based upon the difference between the carrying value of the assets relinquished compared to the fair value of the assets received.

Liberty recognized a gain on issuance of equity by affiliates and subsidiaries of \$372 million during the two months ended February 28, 1999, in connection with the acquisition by United Video Satellite Group of the TV Guide properties.

INVESTMENTS IN AFFILIATES ACCOUNTED FOR UNDER THE EQUITY METHOD

Liberty's share of losses of affiliates was \$3,485 million, \$904 million and \$66 million during the year ended December 31, 2000, the ten month period ending December 31, 1999 and the two month period ending February 28, 1999, respectively. A summary of Liberty's share of losses of affiliates is included below:

	NEW LIBERTY		OLD LIBERTY
	YEAR ENDED DECEMBER 31, 2000	TEN MONTHS ENDED DECEMBER 31, 1999	TWO MONTHS ENDED FEBRUARY 28, 1999
PERCENTAGE OWNERSHIP	-----	-----	-----
	(AMOUNTS IN MILLIONS)		

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USAI and related investments.....	21%	\$ (36)	\$ (20)	\$ 10
Telewest.....	25%	(441)	(222)	(38)
Discovery.....	49%	(293)	(269)	(8)
Gemstar.....	21%	(254)	--	--
QVC.....	43%	(12)	(11)	13
UnitedGlobalCom.....	11%	(211)	23	--
Teligent.....	34%	(1,269)	--	--
Other.....	various	(969)	(405)	(43)
		-----	-----	-----
		\$ (3,485)	\$ (904)	\$ (66)
		=====	=====	=====

During the year ended December 31, 2000, Liberty determined that its investments in ICG Communications and Teligent experienced other than temporary declines in value. As a result, the carrying amounts of these investments were adjusted to their respective fair values based on recent quoted market prices. These adjustments resulted in impairment charges of \$839 million for Teligent and \$485 million for ICG Communications. The impairment charges are reflected as an increase in share of losses of affiliates in the consolidated statements of operations.

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At December 31, 2000, the excess of Liberty's aggregate carrying amount in its affiliates over Liberty's proportionate share of its affiliates' net assets is approximately \$15 billion. This excess basis is being amortized over estimated useful lives ranging from 2 to 20 years. Such amortization was approximately \$1,058 million, \$463 million and \$9 million for the year ended December 31, 2000, the ten months ended December 31, 1999 and the two months ended February 28, 1999, respectively. Such excess basis amortization is included in Liberty's share of losses of its affiliates. Liberty expects to continue to record shares of losses of its affiliates for the foreseeable future principally due to the significant levels of excess basis amortization that is included in each affiliate's share of losses.

USA Networks, Inc. Liberty's share of USA Networks, Inc.'s net earnings (loss) was approximately \$(36) million, \$(20) million and \$10 million for the year ended December 31, 2000, the ten month period ended December 31, 1999 and the two month period ended February 28, 1999, respectively. Liberty's share of losses for the year ended December 31, 2000 and the ten month period ended December 31, 1999, included \$64 million and \$53 million, respectively, in excess basis amortization. The increase in Liberty's share of USA Networks net loss from 1999 to 2000 is due to the inclusion of a full year of excess basis amortization during 2000 as compared to ten months excess basis amortization in 1999.

Telewest. Liberty's share of Telewest's net losses was approximately \$441 million, \$222 million and \$38 million for the year ended December 31, 2000, the ten month period ended December 31, 1999 and the two month period ended February 28, 1999, respectively. Liberty's share of losses for the year ended December 31, 2000 and the ten month period ended December 31, 1999 included \$164 million and \$73 million, respectively, in excess basis amortization. Liberty's share of Telewest's net loss increased due to the increase in excess basis amortization combined with a \$270 million increase in Telewest's net loss from 1999 to 2000. Telewest's net loss increased due to increased interest expense and increased depreciation and amortization expense resulting from acquisitions.



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Discovery. Liberty's share of Discovery's net loss was approximately \$293 million, \$269 million, and \$8 million for the year ended December 31, 2000, the ten month period ended December 31, 1999 and the two month period ended February 28, 1999, respectively. Liberty's share of losses for the year ended December 31, 2000 and the ten month period ended December 31, 1999, included \$187 million and \$155 million, respectively, in excess basis amortization. The increase in Liberty's share of Discovery's net loss from 1999 to 2000 is due to the inclusion of a full year of excess basis amortization during 2000 as compared to ten months excess basis amortization in 1999. The increase in excess basis amortization was offset by a reduction in Discovery's net loss due to an increase in Operating Cash Flow that was partially offset by increased interest expense and launch support.

Gemstar. Liberty's share of Gemstar's net loss was \$254 million from the date of acquisition through December 31, 2000 and included excess basis amortization of \$199 million. On July 12, 2000, TV Guide and Gemstar completed a merger whereby Gemstar acquired TV Guide. As a result of this transaction, 133 million shares of TV Guide held by Liberty were exchanged for 87.5 million shares of Gemstar common stock. Following the merger, Liberty owned approximately 21.4% of Gemstar.

QVC. Liberty's share of QVC's net earnings (loss) was approximately \$(12) million, \$(11) million and \$13 million for the year ended December 31, 2000, the ten month period ended December 31, 1999 and the two month period ended February 28, 1999, respectively. Liberty's share of losses for the year ended December 31, 2000 and the ten month period ended December 31, 1999 included \$110 million and \$92 million, respectively, in excess basis amortization. The increase in excess basis amortization was offset by an increase in QVC's net income. The increase in net income principally resulted from growth at QVC's domestic and international businesses.

UnitedGlobalCom. Liberty's share of UnitedGlobalCom's net loss was \$211 million for the year ended December 31, 2000 and Liberty's share of earnings was \$23 million for the ten months ended December 31, 1999. Liberty's share of UnitedGlobalCom's operations included \$46 million and \$6 million in excess basis amortization for the year ended December 31, 2000 and the ten months ended December 31, 1999, respectively. Liberty purchased 9.9 million class B shares of UnitedGlobalCom for approximately \$493 million in cash on September 30, 1999. Liberty's ownership in UnitedGlobalCom is approximately 11% on an economic basis and 37% on voting basis. Liberty recorded share of earnings in

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1999 due to gains that UnitedGlobalCom recorded during the fourth quarter of 1999 resulting from sales of investments in affiliates. Such gains recorded by UnitedGlobalCom in 1999 were non-recurring.

Teligent. Liberty's share of Teligent's net loss was \$1,269 million for the year ended December 31, 2000. Liberty's share of losses for the year ended December 31, 2000 included \$122 million in excess basis amortization and \$839 million related to the impairment charge discussed above. On January 14, 2000, Liberty completed its acquisition of The Associated Group, Inc. pursuant to a merger agreement among AT&T, Liberty and Associated Group. As a result of this transaction Liberty received approximately 21.4 million shares of common stock of Teligent. Liberty's ownership in Teligent was approximately 34% at December 31, 2000.

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YEAR ENDED DECEMBER 31, 1999, COMPARED TO DECEMBER 31, 1998

### CONSOLIDATED SUBSIDIARIES

Starz Encore Group. Revenue increased to \$640 million in 1999 from \$541 million in 1998. Revenue from AT&T Broadband increased 13% during 1999, compared to the same period of 1998, pursuant to the terms of the AT&T/Starz Encore Group affiliation agreement. Under this agreement, the amount paid by AT&T Broadband does not vary with the number of subscription units from AT&T Broadband. This category also includes revenue from cable systems that have been contributed by AT&T to joint ventures and are subject to the AT&T/Starz Encore Group affiliation agreement. Revenue from cable affiliates other than AT&T Broadband increased 33% during 1999, compared to 1998 mainly due to increases in subscription units for Encore and STARZ! services, combined with small increases in rates charged. MOVIEplex and Thematic Multiplex subscribers from cable affiliates other than AT&T Broadband increased by 42% and 414%, respectively, during 1999 compared to 1998, contributing to the increase in revenue. Revenue from satellite providers and other distribution technologies increased 21% during 1999, due to 17%, 15% and 26% increases in STARZ!, Encore and Thematic Multiplex subscription units, respectively, partially offset by subscriber volume and penetration discounts.

Programming and other operating expenses increased by 12% during 1999, compared to 1998, primarily due to increased first run exhibitions on Encore and the Thematic Multiplex channels. Sales and marketing expenses increased by 6% during 1999, compared to 1998, due to the "New Encore" national awareness campaign during 1999. The "New Encore" campaign is branding Encore as a first-run premium pay service.

Depreciation and amortization increased from \$8 million during 1998 to \$149 million during 1999. The increase was a direct result of the effects of purchase accounting adjustments related to the TCI merger.

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

Other. Revenue decreased 60% from \$818 million for 1998, to \$324 million for 1999. The decrease in revenue was due to the sale of Netlink Wholesale, Inc. during January 1999, the sale of CareerTrack, Inc. in February 1999, and the deconsolidation of TV Guide in March 1999. Netlink Wholesale, Career Track and TV Guide accounted for \$33 million, \$73 million and \$501 million of the decrease, respectively. This decrease was partially offset by the acquisition of Pramer in August 1998, which contributed \$47 million to revenue in 1999.

Operating, selling, general and administrative expenses decreased 56% to \$309 million for 1999, from \$698 million for 1998. The sales of Netlink and CareerTrack and the deconsolidation of TV Guide accounted for \$22 million, \$74 million and \$399 million of the decrease, respectively. These decreases were partially offset by the acquisition of Pramer, which added \$37 million of expenses, and \$18 million of additional corporate expenses in 1999 associated with the TCI merger.

Depreciation and amortization increased \$314 million to \$435 million for

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1999 from \$121 million during 1998. The increase was a result of the effects of purchase accounting adjustments related to the TCI merger.

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

Other Income and Expense. Interest expense was \$134 million, \$25 million and \$104 million for the ten month period ending December 31, 1999, the two month period ending February 28, 1999, and the year ended December 31, 1998, respectively. The increase in interest expense during the 1999 periods was a result of increased borrowings by Liberty during 1999.

Dividend and interest income was \$242 million, \$10 million and \$65 million for the ten month period ending December 31, 1999, the two month period ending February 28, 1999 and the year ending December 31, 1998, respectively. The increase in dividend and interest income during 1999 primarily represents dividends and interest income from the investment of the \$5.5 billion received in connection with the TCI merger.

Aggregate gains from dispositions and issuance of equity by affiliates and subsidiaries during the ten month period ended December 31, 1999, the two month period ended February 28, 1999, and the year ended December 31, 1998 were \$4 million, \$386 million and \$2,554 million, respectively. Liberty recognized a gain of \$372 million during the two months ended February 28, 1999, in connection with the acquisition by United Video Satellite Group of the TV Guide properties. Liberty recorded a gain of \$1,873 million during 1998 as a result of the exchange of its interest in PCS Ventures for shares of Sprint PCS Group stock. Effective January 1, 1998, Time Warner acquired the business of Southern Satellite from Liberty for \$213 million in cash resulting in a \$515 million pre-tax gain.

### INVESTMENTS IN AFFILIATES ACCOUNTED FOR UNDER THE EQUITY METHOD

Liberty's share of losses of affiliates was \$904 million, \$66 million and \$1,002 million during the ten month period ending December 31, 1999, the two month period ending February 28, 1999, and the year ending December 31, 1998, respectively. A summary of Liberty's share of losses of affiliates is included below:

	NEW LIBERTY	OLD LIBERTY	
	TEN MONTHS ENDED DECEMBER 31, 1999	TWO MONTHS ENDED FEBRUARY 28, 1999	YEAR ENDED DECEMBER 31, 1998
	(AMOUNTS IN MILLIONS)		
USAI and related investments.....	\$ (20)	\$ 10	\$ 30
Telewest.....	(222)	(38)	(134)
Discovery.....	(269)	(8)	(39)
QVC.....	(11)	13	64

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UnitedGlobalCom.....	23	--	--
PCS Ventures.....	--	--	(629)
Other.....	(405)	(43)	(294)
	-----	-----	-----
	\$ (904)	\$ (66)	\$ (1,002)
	=====	=====	=====

Liberty's share of losses of affiliates included \$463 million, \$9 million and \$8 million in excess basis amortization for the ten months ended December 31, 1999, the two months ended February 28, 1999 and the year ended December 31, 1998.

USA Networks, Inc. Liberty's share of USA Networks, Inc.'s net earnings (loss) was approximately \$(20) million, \$10 million and \$30 million for the ten month period ended December 31, 1999, the two month period ended February 28, 1999 and the year ended December 31, 1998, respectively. Liberty's

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share of losses for the ten month period ended December 31, 1999, included \$53 million in excess basis amortization. Liberty's recorded increased share of losses in USA Networks in 1999 due to the excess basis amortization combined with a decrease in USA Network's net income.

Telewest. Liberty's share of Telewest's net loss was approximately \$222 million, \$38 million and \$134 million for the ten month period ended December 31, 1999, the two month period ended February 28, 1999, and the year ended December 31, 1998, respectively. Liberty's share of losses for the ten month period ended December 31, 1999, included \$73 million in excess basis amortization. Liberty's share of Telewest's net loss increased due to the excess basis amortization combined with a \$308 million increase in Telewest's net loss. The increase in Telewest's net loss was due to increased interest expense and increased depreciation and amortization expense resulting from acquisitions and increased foreign currency transaction losses.

Discovery. Liberty's share of Discovery's net loss was approximately \$269 million, \$8 million and \$39 million for the ten month period ended December 31, 1999, the two month period ended February 28, 1999 and the year ended December 31, 1998, respectively. Liberty's share of losses for the ten month period ended December 31, 1999, included \$155 million in excess basis amortization. Liberty's share of Discovery's net loss increased due to the excess basis amortization combined with a \$175 million increase in Discovery's net loss. The increase in the net loss was due to increased interest expense and launch support.

QVC. Liberty's share of QVC's net (loss) earnings was approximately \$(11) million, \$13 million and \$64 million for the ten month period ended December 31, 1999, the two month period ended February 28, 1999, and the year ended December 31, 1998, respectively. Liberty's share of losses for the ten month period ended December 31, 1999 included \$92 million in excess basis amortization. The decrease in Liberty's share of QVC's earnings was due to the excess basis amortization offset partially by a \$72 million increase to QVC's net income resulting from revenue growth and improved gross margins.

PCS Ventures. Liberty's share of losses from its investment in the PCS Ventures was \$629 million during 1998. On November 23, 1998, Liberty exchanged its investments in certain wireless businesses (PCS Ventures) for Sprint PCS Group stock and certain other instruments convertible into such securities (Sprint Securities). Through November 23, 1998, Liberty accounted for its interest in the PCS Ventures using the equity method of accounting; however, as a result of the foregoing exchange, Liberty's less than 1% voting interest in Sprint and the transfer of its Sprint Securities to a trust prior to the TCI

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merger, Liberty no longer exercises significant influence with respect to its investment in the PCS Ventures. Accordingly, Liberty accounts for its investment in the Sprint PCS Group stock as an available-for-sale security.

### LIQUIDITY AND CAPITAL RESOURCES

Liberty's sources of funds include its available cash balances, net cash from operating activities, dividend and interest receipts, proceeds from asset sales and proceeds from financing activities. Liberty is generally not entitled to the cash resources or cash generated by operations of its subsidiaries and business affiliates. Liberty is primarily dependent upon its financing activities to generate sufficient cash resources to meet its future cash requirements and planned commitments.

Upon consummation of the AT&T merger, through a new tax sharing agreement between Liberty and AT&T, Liberty became entitled to the benefit of all of the net operating loss carryforwards available to the entities included in TCI's consolidated income tax return as of the date of the AT&T merger. In addition, under the tax sharing agreement, Liberty will receive a cash payment from AT&T in periods when Liberty generates taxable losses and those taxable losses are utilized by AT&T to reduce the consolidated income tax liability.

In connection with the split off, Liberty will also be deconsolidated from AT&T for federal income tax purposes. As a result, AT&T will be required to pay Liberty an amount equal to 35% of the amount of the net operating loss carryforward reflected in TCI's final federal income tax return that has not been used as an offset to Liberty's obligations under the tax sharing agreement and that has been, or is reasonably expected to be, utilized by AT&T. The payment will be reduced by Liberty's obligation under

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TCI's 1995 tax sharing agreement. The expected net payment from AT&T is approximately \$692 million. In addition, certain deferred intercompany gains will be includible in taxable income as a result of the split off and the resulting tax liability of approximately \$122 million will be an obligation of Liberty.

In connection with the private letter ruling received by AT&T with respect to the tax consequences of the split off, Liberty represented to the Internal Revenue Service that, within one year following the split off, it will issue, subject to market and business conditions, at least \$250 million to \$500 million of our common stock for cash or other assets, and, within two years following the split off, it will issue at least \$500 million to \$1 billion of our common stock (including any common stock issued during the first year) for cash or other assets.

At March 31, 2001, Liberty owned 81.7 million ADSs of News Corp. and 62.6 million shares of Motorola common stock. Liberty receives dividends on its

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ownership interests in these entities periodically. There can be no assurance that such dividends will continue to be paid.

Liberty owns shares of Fox Kids Worldwide preferred stock which pays quarterly dividends at the annual rate of 9% of the liquidation value of \$1,000 per share. Cash dividends received by Liberty aggregate \$8 million per quarter. If Fox Kids Worldwide does not declare or pay a quarterly dividend, that dividend will be added to the liquidation value and the dividend rate will increase to 11.5% per annum until all accrued and unpaid dividends are paid. News Corp. has undertaken to fund all amounts needed by Fox Kids Worldwide to pay any amounts it is required to pay under the certificate of designations for the Fox Kids Worldwide preferred stock, including payment of the liquidation value of that stock upon any optional or mandatory redemption of that stock.

At March 31, 2001, Liberty and its consolidated subsidiaries had bank credit facilities which provided for borrowings of up to \$2,166 million. Borrowings under these facilities of \$1,967 million were outstanding at March 31, 2001. Certain assets of Liberty's consolidated subsidiaries serve as collateral for borrowings under these bank credit facilities. Also, these bank credit facilities contain provisions which limit additional indebtedness, sales of assets, liens, guarantees and distributions by the borrowers.

On January 7, 2000, a trust, which holds Liberty's investment in Sprint, entered into agreements to loan 18 million shares of Sprint PCS Group stock to a third party, as agent. The obligation to return those shares is secured by cash collateral equal to 100% of the market value of that stock, which was \$315 million at March 31, 2001. During the period of the loan, which is terminable by either party at any time, the cash collateral is to be marked-to-market daily. The trust, for the benefit of Liberty, has the use of 80% of the cash collateral plus any interest earned thereon during the term of the loan, and is required to pay a rebate fee equal to the Federal funds rate less 30 basis points to the borrower of the loaned shares. Interest earned on the cash collateral aggregated \$23 million as of March 31, 2001, and Liberty had utilized \$256 million of the cash collateral and interest income as of such date. Unutilized cash collateral of \$59 million at March 31, 2001, which represents restricted cash, is included in other current assets in the consolidated balance sheets.

In January 2001, Liberty received net cash proceeds of \$588 million (after underwriter fees of \$12 million) from the issuance of its 3 1/2% senior exchangeable debentures due 2031. Each \$1,000 face amount of these debentures is exchangeable, at the option of the holder, for the value of 36.8189 shares of Motorola stock. Liberty may pay such value in cash, with shares of Motorola stock or a combination of cash and stock, as determined in the debentures.

In March 2001, Liberty received net cash proceeds of \$801 million (after underwriter fees of \$17 million) from the issuance of its 3 1/4% senior exchangeable debentures due 2031. Each \$1,000 face amount of these debentures is exchangeable, at the option of the holder, for the value of 18.5666 shares of Viacom. Liberty may pay such value in cash, with shares of Viacom stock or a combination of cash and stock, as determined in the debentures.

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Based on currently available information and expected future transactions, Liberty expects to receive approximately \$223 million in dividend and interest income during the year ended December 31, 2001.

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Based on current debt levels and current interest rates, Liberty expects to make interest payments of approximately \$465 million during the year ended December 31, 2001.

For so long as Liberty is a subsidiary of AT&T, there are restrictions on incurrence of debt of Liberty under an inter-group agreement with AT&T. Liberty may not incur any debt that would cause the total indebtedness of Liberty at any time to be in excess of 25% (\$9.5 billion at March 31, 2001) of the total market capitalization of AT&T's Liberty Media Group tracking stock, if the excess would adversely affect the credit rating of AT&T. There are no approvals required from Liberty's debt holders with respect to the split off.

Various partnerships and other affiliates of Liberty accounted for under the equity method finance a substantial portion of their acquisitions and capital expenditures through borrowings under their own credit facilities and net cash provided by their operating activities.

Pursuant to a proposed final judgment agreed to by TCI, AT&T and the United States Department of Justice on December 30, 1998, Liberty transferred all of its beneficially owned securities of Sprint PCS to a trustee prior to the AT&T merger. The final judgment, which was entered by the United States District Court for the District of Columbia on August 23, 1999, requires the Trustee, on or before May 23, 2002, to dispose of a portion of the Sprint PCS securities held by the trust sufficient to cause Liberty to beneficially own no more than 10% of the outstanding Sprint PCS Group common stock-Series 1 on a fully diluted basis on such date. On or before May 23, 2004, the trustee must divest the remainder of the Sprint PCS securities beneficially owned by Liberty.

Liberty has guaranteed notes payable and other obligations of certain affiliates. At March 31, 2001, the U.S. dollar equivalent of the amounts borrowed pursuant to these guaranteed obligations aggregated approximately \$461 million.

Liberty intends to continue to develop its entertainment and information programming services and has made certain financial commitments related to the acquisition of programming. As of March 31, 2001, Starz Encore Group's future minimum obligation related to certain film licensing agreements was \$1.2 billion. The amount of the total obligation is not currently estimable because such amount is dependent upon the number of qualifying films released theatrically by certain motion picture studios as well as the domestic theatrical exhibition receipts upon the release of such qualifying films. Continued development may require additional financing, and it cannot be predicted whether Starz Encore Group will obtain such financing. If additional

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financing cannot be obtained by Starz Encore Group, Starz Encore Group or Liberty could attempt to sell assets but there can be no assurance that asset sales, if any, can be consummated at a price and on terms acceptable to Liberty.

We have agreed to a transaction with UnitedGlobalCom, Inc. (UGC) pursuant to which we will invest consideration equal to \$1.4 billion and contribute certain of our interests in various international broadband distribution and programming assets, such as our interests in Cablevision S.A., Pramer S.C.A. and Torneos y Competencias S.A., in exchange for direct or indirect equity interests in UGC. Assuming the consummation of all of the contemplated transactions and the contribution of all of the assets proposed to be contributed, we would hold a substantial direct or indirect equity interest in UGC and, upon the occurrence of certain events, a controlling voting interest in UGC. However, pursuant to certain voting and standstill arrangements that would be entered into at the time of the closing of this transaction, our ability to exercise control of UGC would be limited. The voting and standstill arrangements would terminate upon the tenth anniversary of the closing, subject to earlier termination upon the occurrence of specified events. Although no assurance can be given that the contemplated transactions will be consummated, Liberty anticipates that any closing would occur during 2001 and such closing could have a significant impact on Liberty's capital resources.

### CASH FLOWS FROM OPERATING ACTIVITIES

Cash used in operating activities for the three months ended March 31, 2001 and 2000 was \$361 million and \$146 million, respectively, including payments related to stock appreciation rights of \$202 million and \$183 million, respectively.

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### CASH FLOWS FROM INVESTING ACTIVITIES

Cash used in investing activities was \$973 million and \$975 million for the three months ended March 31, 2001 and 2000, respectively. Liberty uses cash to make contributions and investments in entities in which Liberty holds a 50% or less ownership interest. Cash flows from investing activities included cash used for investments in and loans to affiliates amounting to \$310 million and \$808 million during the three months ended March 31, 2001 and 2000, respectively.

### CASH FLOWS FROM FINANCING ACTIVITIES

Liberty is primarily dependent on financing activities to generate sufficient cash resources to meet its cash requirements. Financing cash flows consist primarily of borrowings and repayments of debt. Liberty had borrowings of \$2,457 million and \$2,410 million and repayments of \$662 million and \$772 million during the three months ended March 31, 2001 and 2000, respectively.



MARKET RISK

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

Contributions to Liberty's foreign affiliates are denominated in foreign currency. Liberty therefore is exposed to changes in foreign currency exchange rates. Liberty does not hedge the majority of its foreign currency exchange risk because of the long-term nature of its interests in foreign affiliates. However, during the three months ended March 31, 2001, Liberty entered into forward purchase contracts with respect to 900 million Euros in connection with certain foreign currency denominated transactions which are expected to be completed in the third quarter of 2001. Liberty recorded \$12 million in unrealized losses related to these contracts in the first quarter of 2001. If the price of the Euro had been 10% lower at March 31, 2001, Liberty would have recorded an additional unrealized loss on financial instruments, net of taxes, of \$48 million. Liberty continually evaluates its foreign currency exposure based on current market conditions and the business environment in each country in which it operates.

Liberty is exposed to changes in interest rates primarily as a result of its borrowing and investment activities, which include fixed and floating rate investments and borrowings used to maintain liquidity and to fund its business operations. The nature and amount of Liberty's long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. Liberty manages its exposure to interest rates primarily through the issuance of fixed rate debt that Liberty believes has a low stated interest rate and significant term to maturity. Liberty believes this best protects it from interest rate risk. As of March 31, 2001, 61% of Liberty's debt was composed of fixed rate debt with a weighted average interest rate of 5.9%. Liberty's variable rate debt had a weighted average interest rate of 6.4% at March 31, 2001. Had market interest rates been 100 basis points higher (representing an approximate 16% increase over Liberty's effective cost of borrowing) throughout the three months ended March 31, 2001 and 2000, Liberty would have recorded approximately \$6 million and \$2 million of additional interest expense, respectively. At March 31, 2001, the aggregate fair value of Liberty's notes and debentures was \$3.5 billion, compared to a book value of \$3.3 billion. Had the price of the securities underlying the call option obligations associated with the senior exchangeable debentures been 10% higher during the three months ended March 31, 2001, Liberty would have recorded an additional unrealized loss on financial instruments, net of taxes, of \$98 million.

Liberty is exposed to changes in stock prices primarily as a result of its significant holdings in publicly traded securities. Liberty continually monitors changes in stock markets, in general, and changes in the stock prices of its significant holdings, specifically. Changes in stock prices can be expected to

vary as a result of general market conditions, technological changes, specific industry changes and other factors.

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Equity collars and put spread collars have been used to hedge certain investment positions subject to fluctuations in stock prices.

In order to illustrate the effect of changes in stock prices on Liberty's balance sheet and statement of operations, we provide the following sensitivity analysis. Had the stock price of Liberty's investments accounted for as available-for-sale securities been 10% lower at March 31, 2001, and December 31, 2000, the value of such securities would have been lower, including consideration of our equity collars, by \$2 billion and \$1.7 billion, respectively. Our unrealized gains, net of taxes would have also been lower by \$1.2 billion and \$1.0 billion, respectively. Had the stock price of our publicly traded investments accounted for using the equity method been 10% lower at March 31, 2001 and December 31, 2000, there would have been no impact on the carrying value of such investments. Liberty's cash collateral account and debt balance under the securities lending agreement would be reduced by \$32 million if the underlying shares of the Sprint PCS Group decreased in value by 10%.

Liberty measures the market risk of its derivative financial instruments through comparison of the blended rates achieved by those derivative financial instruments to the historical trends in the underlying market risk hedged. With regard to interest rate swaps, Liberty monitors the fair value of interest rate swaps as well as the effective interest rate the interest rate swap yields, in comparison to historical interest rate trends. Liberty believes that any losses incurred with regard to interest rate swaps would be offset by the effects of interest rate movements on the underlying hedged facilities. With regard to equity collars, Liberty monitors historical market trends relative to values currently present in the market. Liberty believes that any unrealized losses incurred with regard to equity collars and swaps would be offset by the effects of fair value changes on the underlying assets. These measures allow Liberty's management to measure the success of its use of derivative instruments and to determine when to enter into or exit from derivative instruments.

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## BUSINESS

### OVERVIEW

We own interests in a broad range of video programming, communications and Internet businesses in the United States, Europe, South America and Asia and have some of the most recognized and respected brands. These brands include Encore, STARZ!, Discovery, TV Guide, Fox, USA, QVC, AOL, CNN, Motorola and Sprint PCS.

Our management team, led by Dr. John C. Malone, our Chairman, and Mr. Robert R. Bennett, our President and Chief Executive Officer, has extensive expertise in creating and developing new businesses and opportunities for our subsidiaries and business affiliates and in building scale, brand power and market leadership. This expertise dates back to the mid-1980s when members of

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our management were instrumental in identifying and executing strategic transactions to provide TCI with quality programming for its cable television systems. Today, our management team continues to leverage its expertise and industry relationships on behalf of our subsidiaries and business affiliates to identify and execute strategic transactions that improve the value of their businesses and that allow us to take full advantage of new developments in consumer and technological trends.

The media, entertainment and communications industries are currently undergoing tremendous changes due in part to the growth of new distribution technologies, led by the Internet and the implementation of digital compression. The growth in distribution technologies has, in turn, created strong demand for an ever increasing array of multimedia products and services. We are working with our subsidiaries and business affiliates to extend their established brands, quality content and networks across multiple distribution platforms to keep them at the forefront of these ongoing changes.

### BUSINESS STRATEGY

Our business strategy is to maximize our value by (1) working with the management teams of our existing subsidiaries and business affiliates to grow their established businesses and create new businesses; (2) identifying and executing strategic transactions that improve the value or optimize the efficiency of our assets; and (3) managing our capital structure to maintain liquidity, reduce risk and preserve a prudent debt structure. Key elements of our business strategy include the following:

Promoting the internal growth of our subsidiaries and business affiliates. We actively seek to foster the internal growth of our subsidiaries and business affiliates by working with their management teams to expand their established businesses and create new businesses, often by extending their existing brands across multiple distribution platforms or effecting transactions that enhance the scale of their operations. Our emphasis is on the creation and development of multiple sources of revenue that enhance cash flow. We also seek to use our extensive industry experience and relationships to provide our subsidiaries and business affiliates with strategic alliances, greater visibility and improved positioning in their respective markets. While the form of our participation in our subsidiaries and business affiliates may change over time as a result of acquisitions, mergers and other strategic transactions, we generally seek to retain a significant long-term interest in their successors.

Maintaining significant involvement in governance. We seek to add considerable value to our subsidiaries and business affiliates through our strategic, operational and financial advice. To ensure that we can exert significant influence over management where we own less than a majority voting interest in a business affiliate, we often seek representation at the board of directors level and contractual rights that assure our participation in material decision making. These contractual rights will typically include participation in budget decisions, veto rights over significant corporate actions and rights of first refusal with respect to significant dispositions of stock by management or strategic partners.

Participating with experienced management and strategic partners. We seek to participate in companies with experienced management teams that are led by strong entrepreneurs, and partner with strategic investors that are engaged in complementary businesses with a demand for the products and services of our subsidiaries and business affiliates.

Executing strategic transactions that optimize the efficiency of our assets. We seek to identify and execute acquisitions, consolidations and other

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strategic transactions that rationalize our participation in the businesses of our subsidiaries and business affiliates. We often undertake transactions of this nature to obtain the benefits of scale and liquidity as well as to further diversify our businesses. In pursuing new acquisition opportunities, we focus on businesses that have attractive growth characteristics and offer strategic benefits to our existing subsidiaries and business affiliates.

Participating in financial transactions to optimize our financial structure. We continually reevaluate our capital structure in light of current and expected market conditions and seek to identify financial instruments and financing techniques that will maximize the return on our equity consistent with a prudent debt structure. We seek to enhance our financial flexibility by utilizing multiple sources of capital and preserving liquidity through our ownership of a mix of public and private assets.

### RECENT DEVELOPMENTS

We have agreed to a transaction with UnitedGlobalCom, Inc. (UGC) pursuant to which we will invest consideration equal to \$1.4 billion and contribute certain of our interests in various international broadband distribution and programming assets, such as our interests in Cablevision S.A., Pramer S.C.A. and Torneos y Competencias S.A., in exchange for direct or indirect equity interests in UGC. Assuming the consummation of all of the contemplated transactions and the contribution of all of the assets proposed to be contributed, we would hold a substantial direct or indirect equity interest in UGC and, upon the occurrence of certain events, a controlling voting interest in UGC. However, pursuant to certain voting and standstill arrangements that would be entered into at the time of the closing of this transaction, our ability to exercise control of UGC would be limited. The voting and standstill arrangements would terminate upon the tenth anniversary of the closing, subject to earlier termination upon the occurrence of specified events. This transaction is subject to various conditions, including receipt of governmental and other third party approvals. UGC is a broadband communications provider of video, voice and data services outside the U.S. with operations in 23 countries and networks that reach more than 18 million homes and businesses and serve more than 9.5 million video customers.

In October 2000, we restructured a portion of our ownership interests in TruePosition, ICG Communications, Sprint PCS, priceline.com and LSAT and increased our equity interest in LSAT. On October 27, 2000, in three separate transactions, (1) we sold 608,334 shares of TruePosition common stock to TP Investment, Inc., a company wholly owned by our Chairman, Dr. Malone, for \$6 million in cash; (2) we and TP Investment each contributed shares of TruePosition common stock to Liberty TP LLC, a newly formed limited liability company; and (3) we and Liberty AGI, Inc., one of our subsidiaries, directly and through our respective subsidiaries, contributed a portion of our respective ownership interests in TruePosition, Sprint PCS, ICG Communications and priceline.com to Liberty TP Management, Inc., a newly formed corporation, in exchange for newly issued equity securities of Liberty TP Management. Concurrently, TP Investment contributed shares of LSAT's Class A and Class B common stock and \$47.2 million in cash to Liberty TP Management, in exchange for newly issued equity securities of Liberty TP Management. On October 31, 2000 Liberty ICGX, Inc. and Liberty PCLN, Inc., two of our subsidiaries, each of which contributed assets to Liberty TP Management, each sold a portion of the Liberty TP Management securities it received in exchange for those assets to TP Investment for an aggregate of approximately \$34.92 million. Salomon Smith Barney Inc. delivered an opinion to us and Liberty AGI that the aggregate

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consideration received in these transactions by us and Liberty AGI and our respective subsidiaries was fair from a financial point of view.

On January 23, 2001, BET Holdings, II, Inc. was acquired by Viacom, Inc. in exchange for shares of Class B common stock of Viacom pursuant to an Agreement and Plan of Merger among Liberty, BET Holdings II, Inc., Viacom, Robert L. Johnson and the Johnson Children's Insurance Trust and certain of their respective affiliates. As a result of the merger, we received approximately 15.2 million shares of Viacom's Class B common stock in exchange for our 35% interest in BET Holdings II, Inc.

On April 18, 2001, Liberty TP Management, Inc., one of our subsidiaries, transferred 50,000 shares of the 8% Series A-1 convertible preferred stock of ICG Communications, Inc., and a warrant to purchase an

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aggregate of 6,666,667 shares of common stock of ICG Communications to IDT Investments, Inc., a subsidiary of IDT Corporation. In exchange for the transfer of the preferred shares and the warrant, IDT Investments issued to Liberty TP Management 2,500 shares of Class B common stock and 10,000 shares of Series A convertible preferred stock of IDT Investments. Also, on April 18, 2001, Microwave Holdings, L.L.C., one of our subsidiaries, transferred all of its interests in Microwave Services, Inc., to IDT Investments in exchange for 7,500 shares of Class B common stock and 30,000 shares of Series A convertible preferred stock of IDT Investments. The sole assets of Microwave Services consisted of 21,436,689 shares of Class A common stock of Teligent, Inc. and related registration and other contractual rights. IDT Investments' Class B common stock is identical to its Class A common stock, except that the Class A common stock is entitled to one vote per share and the Class B common stock is entitled to one-tenth of a vote per share. Shares of IDT Investments' Series A-1 convertible preferred stock bear a face value of \$1,000 per share, pay annual cash dividends at a rate of 5- 1/2% per annum and are convertible at the option of the holder into shares of Class B common stock.

On May 2, 2001, pursuant to our September 27, 2000 letter agreement with News Corp., News Corp. acquired Liberty UVSG, Inc., our subsidiary that holds 70,704,586 shares of common stock of Gemstar-TV Guide International, Inc., in exchange for 121,463,409 American Depository Shares representing preferred limited voting ordinary shares of News Corp. In connection with the acquisition, we assigned certain of our rights under the stockholders agreement we entered into with News Corp., Gemstar-TV Guide and Henry C. Yuen (Chief Executive Officer of Gemstar-TV Guide) to News Corp. and caused persons designated by News Corp. to replace our designees on the board of Gemstar-TV Guide. In addition, we received registration rights with respect to the News Corp. ADSs and agreed not to transfer the ADSs prior to May 2003, subject to certain exceptions.

Pursuant to our September 27, 2000 letter agreement with New Corp. and subject to the closing of an initial public offering of Sky Global Networks, Inc. with gross proceeds of at least \$1 billion, Sky Global Networks will acquire from us all of the 16,761,150 shares of common stock of Gemstar held by Liberty TVGIA, Inc., one of our subsidiaries, and a 10% interest in each of Innova S. de R.L., Sky Multi-County Partners, NetSat Servicios Ltda, DTH Techco Partners and Sky Latin America Partners in exchange for shares of Class A common

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stock of Sky Global Networks representing 4.76% of Sky Global Networks common equity, subject to adjustment (the transactions described in this sentence, we refer to as the SGN/DTH Transactions). If the Sky Global Networks public offering fails to occur by November 27, 2001, neither we nor News Corp. will be under any obligation to effect the SGN/DTH Transactions, and in lieu of such transactions, we will effect a transaction with News Corp. pursuant to which we will transfer to News Corp. each share of Gemstar-TV Guide common stock held by Liberty TVGIA for 1.7179 News Corp. ADSs.

In addition, subject to the closing of the Sky Global Networks initial public offering, we will purchase from Sky Global Networks a number of shares of its Class A common stock for an aggregate purchase price of \$500 million based upon the initial public offering price of a share of Sky Global Networks' Class A common stock. If the initial public offering does not occur by June 22, 2001, neither we nor Sky Global Networks will be under any obligation to effect the acquisition described in the immediately preceding sentence.

If the foregoing transaction is consummated as currently contemplated, we will enter into lock-up arrangements and receive registration rights with respect to the shares of Class A common stock of Sky Global Networks we acquire in the transaction. The foregoing transaction is subject to customary closing conditions.

### BUSINESS OPERATIONS

We are engaged principally in three fundamental areas of business:

- Programming, consisting principally of interests in video programming services;
- Communications, consisting principally of interests in cable television systems, telephony and satellite communication systems; and
- Internet services and technology.

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The diagram below illustrates our business structure and lists several of our principal holdings (and our attributed ownership in each of these holdings) within each area of our business. For a complete list of our subsidiaries and business affiliates and additional information regarding our attributed ownership interest in each of these holdings, please see the more comprehensive table following this diagram.

[CHART]

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The following table sets forth information concerning our subsidiaries and business affiliates and lists all of the businesses currently attributed to AT&T's Liberty Media Group, including businesses that were contributed to us by AT&T in anticipation of the split off. We hold these interests either directly or indirectly through partnerships, joint ventures, common stock investments or instruments convertible or exchangeable into common stock. Ownership percentages in the table are approximate, calculated as of May 15, 2001, and, where

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applicable and except as otherwise noted, assume conversion to common equity by us and, to the extent known by us, other holders. In some cases, our interest may be subject to buy/sell procedures, repurchase rights or, under certain circumstances, dilution.

ENTITY	SUBSCRIBERS AT 3/31/01 (000'S)	YEAR LAUNCHED	ATTRIBUTION OWNERSHIP AT 5/15
VIDEO PROGRAMMING SERVICES			
AOL Time Warner Inc.(1) (NYSE: AOL).....			4%
Canales n.....	33(2)	1998	100%
Corus Entertainment Inc.(3) (TSE: CJR.B; NYSE: CJR).....			17%
Court TV.....	53,936	1991	50%
Crown Media Holdings, Inc.(4) (Nasdaq: CRWN).....			16%
Discovery Communications, Inc. ....			49%
Discovery Channel.....	81,771	1985	
The Learning Channel.....	78,102	1980	
Animal Planet.....	67,876	1996	
Travel Channel.....	52,357	1987	
Discovery Health Channel.....	22,092	1999	
Discovery Digital Services (aggregate units).....	28,511(2)		
Discovery Civilization.....		1996	
Discovery Home & Leisure.....		1996	
Discovery Kids.....		1996	
Discovery Science.....		1996	
Discovery Wings.....		1998	
Discovery en Espanol.....		1998	
Animal Planet Asia.....	24,170	1998	25%
Animal Planet Europe.....	8,443	1998	
Animal Planet Japan(5).....	N/A	2000	
Animal Planet Latin America.....	8,976	1998	25%
Animal Planet UK.....	6,257	1998	
Discovery Asia.....	38,183	1994	
Discovery Canada.....	6,790	1995	10%
Discovery India.....	18,652	1996	
Discovery Japan(5).....	2,202	1996	
Discovery Europe.....	23,393	1989	
Discovery Turkey.....	1,035	1997	
Discovery Germany.....	1,807	1996	25%
Discovery Italy/Africa.....	2,134	1996	
Discovery Latin America.....	14,662	1996	
Discovery Latin America Kids Network.....	11,022	1996	
Discovery Middle East.....	260	1997	
People & Arts (Latin America).....	11,203	1995	25%
Europe Showcase.....	19,524	1998	
Discovery Home & Leisure (Europe).....	7,099	1999	
Health Latin America.....	3,788	2000	
Health UK.....	4,542	2000	

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ENTITY	SUBSCRIBERS AT 3/31/01 (000'S)	YEAR LAUNCHED	ATTRIBU OWNERSH AT 5/15
VIDEO PROGRAMMING SERVICES (CONT.)			
Travel & Adventure (Latin America).....	3,621	2000	
Discovery.com, Inc. ....	Online	1995	
E! Entertainment Television.....	69,091	1990	10%
Style.....	9,934	1998	
Flextech Limited(UK).....			25%
Bravo.....	7,090	1985	25%
Challenge TV.....	6,907	1993	25%
KinderNet.....	5,751	1988	8%
Living.....	7,358	1993	25%
SMG.....	N/A	1957	4%
Trouble.....	7,019	1984	25%
TV Travel Shop.....	8,780	1998	9%
UK Arena (UKTV).....	5,588	1997	12%
UK Gold (UKTV).....	8,512	1992	12%
UK Gold Classics (UKTV).....	5,457	1999	12%
UK Horizons (UKTV).....	7,455	1997	12%
UK Style (UKTV).....	6,958	1997	12%
UK Play (UKTV).....	6,871	1998	12%
Fox Family Worldwide, Inc. ....			
Gemstar-TV Guide International, Inc. (Nasdaq: GMST).....			4%
International Channel.....	10,290	1990	90%
Jupiter Programming Co., Ltd. (Japan).....			50%
Animal Planet Japan.....	713	2000	17%
Cable Soft Network.....	3,343	1989	50%
CNBC Japan/Nikkei.....	N/A	1997	10%
Discovery Japan.....	2,265	1996	25%
Golf Network.....	2,735	1996	45%
Japanese Movies and Dramas.....	N/A	2000	5%
JSky Sports.....	2,124	1998	29%
Kids Station.....	N/A	2000	8%
LaLa MEDIA.....	783	2000	50%
Premium Anime Channel.....	N/A	2000	7%
Shop Channel.....	9,361	1996	35%
MacNeil/Lehrer Productions.....	N/A	N/A	67%
MultiThematiques, S.A.....			28%
Canal Jimmy (France).....	2,558	1991	
Canal Jimmy (Italy).....	1,001	1997	
Cine Cinemas (Benelux/Scandinavia).....	18	2000	
Cine Cinemas (France).....	1,477	1991	
Cine Cinemas (Italy).....	124	1997	
Cine Classics (France).....	1,308	1991	
Cine Classics (Spain).....	246	1995	14%
Cine Classics (Italy).....	123	1997	
Eurochannel (Brazil).....	1,042	2000	
Planete (Africa).....	N/A	2000	
Planete (Belgium).....	N/A	2000	
Planete (France).....	3,614	1988	
Planete (Germany).....	1,790	1997	



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ENTITY	SUBSCRIBERS AT 3/31/01 (000'S)	YEAR LAUNCHED	ATTRIBU OWNERSH AT 5/15
----- VIDEO PROGRAMMING SERVICES (CONT.) -----			
Planete (Italy).....	1,002	1997	
Planete (Poland).....	2,102	1996	
Planete (Switzerland).....	N/A	2000	
Seasons (France).....	148	1996	
Seasons (Germany).....	72	1997	
Seasons (Italy).....	58	1997	
Seasons (Poland).....	381	2000	
Seasons (Spain).....	35	1997	
The News Corporation Limited(9) (10) (NYSE: NWS.A; ASX: NCPDP).....			18%
Pramer S.C.A. (Argentina) (4).....			100%
America Sports.....	2,350	1990	
Big Channel.....	2,345	1992	
Canal a.....	2,258	1996	
Cineplaneta.....	2,028	1997	
elgourmet.com.....	3,325	2000	
Film & Arts.....	6,495	2000	
GEMS International.....	3,975	N/A	
Magic Kids.....	3,848	1995	
P&E.....	771	1996	
Plus Satelital.....	3,915	1988	
Rio de la Plata.....	76	2000	
The Premium Movie Partnership(4) (Australia).....	965	1995	20%
QVC, Inc. ....			42%
QVC.....	70,783	1986	
QVC-The Shopping Channel (UK).....	8,933	1993	34%
QVC-Germany.....	22,800	1996	
iQVC.....	Online	1995	
Starz Encore Group LLC.....			100%
Encore.....	17,538	1991	
MOVIEplex.....	8,032	1995	
Thematic Multiplex (aggregate units).....	57,663 (2)		
Love Stories.....		1994	
Westerns.....		1994	
Mystery.....		1994	
Action.....		1994	
True Stories.....		1994	
WAM! America's Kidz Network.....		1994	
STARZ!.....	12,208	1994	
STARZ! Theater.....	(2)	1996	
BLACK STARZ!.....	(2)	1997	
STARZ! Family.....	(2)	1999	
STARZ! cinema.....	(2)	1999	
Telemundo Communications Group(11).....	N/A	N/A	40%
Torneos y Competencias, S.A.(4).....	N/A	N/A	40%
USA Networks, Inc.(12) (Nasdaq: USAI).....			21%
Viacom, Inc. (14) (NYSE:VIA.B).....			