LIBERTY MEDIA CORP /DE/
Form 10-K/A
June 12, 2001

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K/A
(Amendment No. 1)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]
For the transition period from ____ to ____

Commission File Number 0-20421

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

State of Delaware	84-1288730
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9197 So. Peoria Street Englewood, Colorado	80112
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 1, 2001, there were 1,000 shares of Class A Common Stock, 1,000 shares of Class B Common Stock and 1,000 shares of Class C Common Stock of Liberty Media Corporation outstanding, all of which were held indirectly by AT&T Corp. We paid no dividends on our common stock during the year ended December 31, 2000, and we have no intention of paying dividends on our common stock for the foreseeable future.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIBERTY MEDIA CORPORATION

Date: June 12, 2001

By: /s/ Charles Y. Tanabe

Charles Y. Tanabe
Senior Vice President and
General Counsel

Date: June 12, 2001

By: /s/ Christopher W. Shean

Christopher W. Shean
Vice President and Controller

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PART II.

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

(a) There is no market for our common equity. See "Certain Relationships and Related Transactions" in Part III of this report.

(b) Recent Sales of Unregistered Securities. On March 8, 1999, in connection with the merger of AT&T and TCI, we reclassified each share of our existing and outstanding common stock, $1.00 par value per share, held by TCI into one share of Class A Common Stock, $.0001 par value per share, one share of Class B Common Stock, $.0001 par value per share, and one share of Class C Common Stock, $.0001 par value per share. We believe this transaction was exempt from registration under the Securities Act either because it did not involve a "sale" of securities as defined in Section 2(3) of the Securities Act or, if it did involve a "sale", the transaction was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act since it did not involve a public offering.

We believe that the sales of the following securities were exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act because none of these transactions involved a public offering. We used the proceeds from the following issuances for working capital purposes.

On June 30, 1999, we sold to Lehman Brothers, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, BNY Capital Markets, Inc., Credit Lyonnais Securities, Donaldson, Lufkin & Jenrette, Morgan Stanley Dean Witter, Salomon Smith Barney, Schroder & Co. Inc. and TD Securities our 7-7/8% Senior Notes due 2009 at an aggregate offering price of $750 million (less a discount to these initial purchasers of approximately $4.9 million) and our 8-1/2% Senior Debentures due 2029 at an aggregate offering price of $500 million (less a discount to these initial purchasers of approximately $4.4 million).

On November 16, 1999, we sold our 4% Senior Exchangeable Debentures due 2029 to Donaldson, Lufkin & Jenrette, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman, Sachs & Co. and Salomon Smith Barney at an aggregate offering price of approximately $868.8 million (less a discount to these initial purchasers of $15 million). Each $1,000 principal amount debenture is exchangeable, at the option of the holder, for the value of 22.9486 shares of Sprint PCS Group stock. We may pay this value in cash, with a number of shares of Sprint PCS Group stock or a combination of cash and stock, as determined in the debentures.

On February 2, 2000, we sold to Lehman Brothers and Salomon Smith Barney Inc. our 8-1/4% Senior Debentures due 2030, at an aggregate offering price of $1 billion (less a discount to the initial purchasers of $8.8 million).

On February 10, 2000, we sold to Salomon Smith Barney Inc. our 3-3/4% Senior Exchangeable Debentures due 2030 at an aggregate offering price of $750 million (less a discount to the initial purchaser of $15 million). On March 8, 2000, we sold to Salomon Smith Barney Inc. an additional $60 million principal amount of our 3-3/4% Senior Exchangeable Debentures due 2030 (less a discount to the initial purchaser of $1 million). Each $1,000 principal amount debenture is exchangeable, at the option of the holder, for the value of 16.7764 shares of Sprint PCS Group stock. We may pay this value in cash, with a number of shares of Sprint PCS Group stock or a combination of cash and stock, as determined in the debentures.

On January 11, 2001, we sold to Lehman Brothers Inc. our 3-1/2% senior exchangeable debentures due 2031 at an aggregate offering price of $550 million (less a discount to the initial purchaser of $11 million). On January 17, 2001, we sold to Lehman Brothers Inc. an additional $50 million principal amount of our 3-1/2% senior exchangeable debentures due 2031 (less a discount to the initial purchaser of $1 million). Each $1,000 principal amount debenture is exchangeable, at the option of the holder, for the value of 36.8189 shares of Motorola common stock. We may pay this value in cash, with a number of shares of Motorola stock or a combination of cash and stock, as determined in the debentures.

On March 8, 2001, we sold to Salomon Smith Barney Inc. our 3-1/4% senior exchangeable

debentures due 2031 at an aggregate offering price of approximately $817.7 million (less a discount to the initial purchaser of approximately $16.7

million). Each $1,000 principal amount debenture is exchangeable, at the option of the holder, for the value of 18.5666 shares of Viacom, Inc. common stock. We may pay this value in cash, with a number of shares of Viacom stock or a combination of cash and stock, as determined in the debentures.

Item 6. Selected Financial Data.

The following tables present selected historical information relating to the financial condition and results of operations of Liberty for the past five years. The following data should be read in conjunction with Liberty's consolidated financial statements. Liberty was a wholly owned subsidiary of Tele-Communications, Inc. ("TCI") since August 1994. On March 9, 1999, AT&T Corp. 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 Liberty.

	New Liberty		Old Liberty		
	December 31,		December 31,		
	2000	1999	1998	1997	1996
	amounts in millions				
Summary Balance Sheet Data:					
Investment in affiliates	$20,379	15,922	3,079	2,359	1,519
Investments in available-for-sale securities and others	$19,035	28,593	10,539	3,971	2,257
Total assets	$54,176	58,650	15,783	7,735	6,722
Debt, including current portion	$ 6,363	3,277	2,096	785	555
Stockholder's equity	$34,224	38,408	9,230	4,721	4,519

	New Liberty			
	Year Ended December 31,	Ten months ended December 31,	Two months ended February 28,	
	2000	1999	1999	1
			amounts in millions	
Summary Statement of Operations Data:				
Revenue	$ 1,526	729	235	1,
Operating income (loss)	$ 437	(2,214)	(158)	(
Interest expense	$ (399)	(134)	(25)	(
Share of losses of affiliates, net	$(1,731)	(904)	(66)	(1,

Gains on dispositions, net	$ 7,339	4	14	2,
Net earnings (loss)	$ 2,569	(1,975)	(70)	

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

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

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 the "Liberty Media Group." We are included in the Liberty Media Group, and the businesses and assets of Liberty and its subsidiaries constitute substantially all of the businesses and assets of the Liberty Media Group.

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 December 31, 2000, 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 method. Included in Liberty's investments in affiliates at December 31, 2000 were USA Networks, Inc., Discovery Communications, Inc., Gemstar-TV Guide International, Inc. (successor to TV Guide, Inc.), QVC, Inc., UnitedGlobalCom, Inc. and Telewest Communications plc.

Liberty also 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 Inc. (successor to Time Warner Inc.), Sprint Corporation, The News Corporation Limited and Motorola, Inc. The investments in AOL Time Warner, Sprint Corporation, News Corporation and Motorola that Liberty holds are classified as available-for-sale securities and are carried at fair value. Unrealized holding gains and losses on these securities are carried net of taxes as a component of accumulated other comprehensive earnings in stockholder's equity. Realized gains and losses are determined on a specific-identification basis.

AT&T's acquisition of Tele-Communications, Inc. ("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 AT&T 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

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. To enhance the reader's understanding, separate financial data has been provided below for the periods in which they were consolidated for Starz Encore

Group, Liberty Livewire and On Command due to the significance of those operations. The table sets forth, for the periods indicated, certain financial information and the percentage relationship that certain items bear to revenue. 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. 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 AT&T 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 AT&T Merger.

	New Liberty			
	Year ended December 31, 2000	% of total revenue	Ten months ended December 31, 1999	% o tot reve
	dollar amounts in millions			
Starz Encore Group				
Revenue	$ 733	100%	$ 539	10
Operating, selling, general and administrative	498	68	415	7
Stock compensation	163	22	283	5
Depreciation and amortization	157	21	148	2
Operating (loss) income	$ (85)	(11)%	$ (307)	(5
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	
Operating, selling, general and administrative	286		181	
Stock compensation	(1,071)		1,502	
Depreciation and amortization	576		414	
Operating income (loss)	$ 507		$(1,907)	

	Old Liberty			
	Two months ended February 28, 1999	% of total revenue	Year ended December 31, 1998	% of total revenu
	dollar amounts in millions			
Revenue	$ 101	100%	$ 541	100
Operating, selling, general and				

administrative	60	59	445	82
Stock compensation	3	3	58	11
Depreciation and amortization	1	1	8	1
Operating (loss) income	$ 37	37%	$ 30	6
Liberty Livewire				
Revenue	$ --	--	$ --	--
Operating, selling, general and administrative	--	--	--	--
Stock compensation	--	--	--	--
Depreciation and amortization	--	--	--	--
Operating income	$ --	--	$ --	--
On Command				
Revenue	$ --	--	$ --	--
Operating, selling, general and administrative	--	--	--	--
Depreciation and amortization	--	--	--	--
Operating loss	$ --	--	$ --	--
Other				
Revenue	$ 134	(a)	$ 818	
Operating, selling, general and administrative	128		698	
Stock compensation	180		460	
Depreciation and amortization	21		121	
Operating income (loss)	$ (195)		$ (461)	

(a) Not meaningful.

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 AT&T 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	Y e Decem 1
			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%	$ --	--	$
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	576		435		
Operating income (loss)	$ 507		$(2,102)		$

(a) Not meaningful.

Certain of the Company's consolidated subsidiaries and equity affiliates (the "Programming Affiliates") are dependent on the entertainment industry for entertainment, educational and informational programming. A 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.

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

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 subsequently acquired by AT&T in the AT&T merger 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 $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 $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. 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 announced that it had completed its cash tender offer for the outstanding common stock of Ascent Entertainment Group, Inc. Approximately 85% of the 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 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. Liberty expects On Command's operating loss in 2001 to approximate its 2000 operating loss.

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 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 True Position, 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 $141 million to $576 million for 2000 from $435 million for 1999. The increase was a result of the effects of purchase accounting adjustments related to the AT&T 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 underlying Sprint PCS Group Stock. Increases or decreases in the value of the underlying Sprint PCS Group Stock above the principal amount of the senior exchangeable debentures (the "Contingent Portion") is recorded as an adjustment to interest expense in the consolidated statements of operations and comprehensive earnings. If the value of the underlying Sprint PCS Group Stock 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 and 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 operations. The following table identifies the realized losses attributable to each of the individual investments as follows (amounts in millions):

Investments	Year ended December 31, 2000

Motorola	$ 1,276
Primedia	103
Others	97
	$ 1,476

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 $7,339 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 $1,731 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	
	Percentage Ownership	Year ended December 31, 2000	Ten months ended December 31, 1999
		amounts in millions	
USAI and related investments	21%	$ (36)	(20)
Telewest	25%	(441)	(222)
Discovery	49%	(293)	(269)
Gemstar	21%	(254)	--
QVC	43%	(12)	(11)
UnitedGlobalCom	11%	(211)	23
Other	Various	(484)	(405)

$ (1,731)	(904)

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 $936 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 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.

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.

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 owns 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 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.

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 AT&T 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 AT&T merger.

Depreciation and amortization increased $314 million to $435 million for 1999 from $121 million during 1998. The increase was a result of the effects of purchase accounting adjustments related to the AT&T 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 AT&T 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 as follows:

	New Liberty	Old Libert
	Ten months ended December 31, 1999	Two months ended February 28, 1999
	amounts in millions	
USAI and related investments	$ (20)	10
Telewest	(222)	(38)
Discovery	(269)	(8)
QVC	(11)	13
UnitedGlobalCom	23	--
PCS Ventures	--	--
Other	(405)	(43)
	$ (904)	(66)

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 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 AT&T 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 it generates taxable losses and those taxable losses are utilized by AT&T to reduce the consolidated income tax liability. During the year ended December 31, 2000 Liberty received $414 million from AT&T pursuant to the tax sharing agreement.

Liberty held shares of Time Warner Series LMCN-V common stock, which were convertible into 114 million shares of Time Warner common stock. Liberty owns approximately 81.7 million ADRs representing preferred limited voting shares of News Corp. Liberty owns 62.6 million shares of Motorola common stock. Liberty receives dividends on its ownership interests in these entities periodically. On January 11, 2001, Time Warner and America Online, Inc. completed their merger, pursuant to which each share of the Time Warner common stock held by Liberty was converted into 1.5 shares of an identical series of stock of AOL Time Warner. AOL Time Warner does not currently intend to pay dividends on its common stock. Liberty anticipates that it will continue to receive dividends on its ownership interests in News Corp. and Motorola. However, there can be no assurance that such dividends will continue to be paid.

Liberty receives approximately $8 million in cash dividends quarterly on the Fox Kids Worldwide preferred stock. This preferred stock pays quarterly dividends at the annual rate of 9% of the liquidation value of $1,000 per share. 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 December 31, 2000, Liberty and its consolidated subsidiaries had bank credit facilities which provided for borrowings of up to $1.9 billion. Borrowings under these facilities of $1.6 billion were outstanding at December 31, 2000. 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, sale 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 $338 million at December 31, 2000. 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. Unutilized cash collateral of $49 million at December 31, 2000 represents restricted cash and is included in other current assets on the consolidated balance sheets. At December 31, 2000, Liberty had utilized $289 million of the cash collateral under the securities lending agreement.

In February 2000, Liberty received net cash proceeds of $983 million from the issuance of its 8-1/4% Senior Debentures due 2030. The 8-1/4% Senior Debentures have an aggregate principal amount of $1 billion.

In February 2000, Liberty received net cash proceeds of $735 million from the issuance of its 3-3/4% Senior Exchangeable Debentures due 2030. In March 2000, Liberty received net cash proceeds of $59 million, including accrued interest from February 10, 2000, from the issuance of an additional $60 million principal amount of such debentures. These debentures are exchangeable, at the option of the holder, for the value of 16.7764 shares of the Sprint PCS Group stock. Liberty may pay such value in cash, with a number of shares of Sprint PCS Group stock or a combination of cash and stock, as determined in the debentures.

In January 2001, Liberty received net cash proceeds of $588 million from the issuance of its 3-1/2% senior exchangeable debentures due 2031, in the aggregate principal amount of $600 million. These debentures are 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 a number of 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 from the issuance of its 3-1/4% senior exchangeable debentures due 2031. The 3-1/4% senior exchangeable debentures have an aggregate principal amount of approximately $818 million. These debentures are exchangeable, at the option of the holder, for the value of 18.5666 shares of Viacom. Liberty may pay such value in cash, with a number of shares of Viacom stock or a combination of cash and stock, as determined in the debentures.

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. Based on current debt levels and current interest rates, Liberty expects to pay approximately $465 million in interest expense 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 through 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 billion at December 31, 2000) of the total market capitalization of the AT&T Liberty Media Group tracking stock, if the excess would adversely affect the credit rating of AT&T.

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.

In September 1999, Liberty Media Group announced the approval to repurchase from time to time up to 135 million shares of AT&T Class A or Class B Liberty Media Group common stock. During 2000, Liberty made distributions to Liberty Media Group totaling approximately $269 million to repurchase approximately 14 million shares under this repurchase plan. The distributions were accounted for as a reduction to additional paid-in-capital.

Pursuant to a final judgment (the "Final Judgment") agreed to by Liberty, AT&T and the United States Department of Justice (the "DOJ") on December 31, 1998, Liberty transferred all of its beneficially owned securities of Sprint PCS to a trustee (the "Trustee") prior to the AT&T Merger. The Final Judgment, which was entered by the United States District Court of 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 Group stock 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 Securities beneficially owned by Liberty.

Liberty has guaranteed notes payable and other obligations of certain affiliates. At December 31, 2000, the U.S. dollar equivalent of the amounts borrowed pursuant to these guaranteed obligations aggregated approximately $659 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 December 31, 2000, Starz Encore Group's future minimum obligation related to certain film licensing agreements was $1.3 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 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.

Liberty has agreed to a transaction with UnitedGlobalCom pursuant to which Liberty will invest consideration equal to $1.4 billion and contribute certain of its interests in various international broadband distribution and programming assets, such as its interests in Cablevision S.A., Pramer S.C.A. and Torneos y Competencias S.A., in exchange for direct or indirect equity interests in UnitedGlobalCom. Assuming the consummation of all of the contemplated transactions and the contribution of all of the assets proposed to be contributed, Liberty would hold a substantial direct or indirect equity interest in UnitedGlobalCom and, upon the occurrence of certain events, a controlling voting interest in UnitedGlobalCom. However, pursuant to certain voting and standstill arrangements that would be entered into at the time of the closing of this transaction, Liberty's ability to exercise control of UnitedGlobalCom 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.

Proposed Split Off Transaction

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. Subsequent to December 31, 2000, AT&T initiated a process for effecting our split off from AT&T by means of a redemption of AT&T Liberty Media Group tracking stock (the "Split Off Transaction"). Prior to the Split Off Transaction, Liberty will increase its authorized capital stock, and the Liberty Class A and Class B Common Stock will be reclassified as Series A Liberty Media Corporation common stock ("Series A common stock") and the Class C Common Stock will be reclassified as Series B Liberty Media Corporation common stock ("Series B common stock"). In the Split Off Transaction, each share of AT&T Class A and AT&T Class B Liberty Media Group tracking stock will be exchanged for a like share of Series A common stock and Series B common stock, respectively. Upon completion of the Split Off Transaction, Liberty Media Corporation will no longer be a subsidiary of AT&T and no shares of AT&T Liberty Media Group tracking stock will be outstanding. The Split Off Transaction will be accounted for at historical cost. There can be no assurance that the split off will be effected.

Immediately prior to the Split Off Transaction, AT&T will contribute to Liberty Media Corporation assets currently attributed to the Liberty Media Group but not held by us (the "Contributed Assets"). These assets include (i) preferred stock and common stock interests in a subsidiary of IDT Corporation, a multinational telecommunications services provider; and (ii) an approximate 8% indirect common equity interest in Liberty Digital. The contributions will be accounted for in a manner similar to a pooling of interests and, accordingly, the financial statements of Liberty Media Corporation for periods prior to contributions will be restated to include the financial position and results of operations of the Contributed Assets once this transaction is completed.

In connection with the Split Off Transaction, 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 our 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 the 1995 TCI Tax Sharing Agreement. The expected net payment from AT&T is approximately $692 million. In addition, certain deferred intercompany gains will be includible into taxable income as a result

of the Split Off Transaction and the resulting tax liability of approximately $122 million will be an obligation to Liberty.

CASH FLOWS FROM OPERATING ACTIVITIES

Cash provided by operating activities for the year ended December 31, 2000, the ten months ended December 31, 1999 and the year ended December 31, 1998 was $181 million, $133 million and $26 million, respectively. Cash used in operating activities for the two month period ended February 28, 1999 was $107 million. Improved operating cash flow for Starz Encore Group and increased dividend and interest income contributed to the higher cash flows from operating activities for the year ended December 31, 2000 and the ten month period ended December 31, 1999. Cash used during the two months ended February 28, 1999 included payments related to stock appreciation rights of $126 million.

CASH FLOWS FROM INVESTING ACTIVITIES

Cash used in investing activities was $2,866 million, $4,658 million, $79 million and $1,121 million for the year ended December 31, 2000, the ten months ended December 31, 1999, the two months ended February 28, 1999 and the year ended December 31, 1998, 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 $3,372 million, $2,596 million, $51 million and $1,404 million during the year ended December 31, 2000, the ten months ended December 31, 1999, the two months ended February 28, 1999 and the year ended December 31, 1998, respectively. Liberty made purchases of marketable securities of $848 million and $7,757 million during the year ended December 31, 2000 and the ten month period ended December 31, 1999, respectively. Liberty had cash proceeds from sales and maturities of marketable securities of $1,820 million and $5,725 million during the year ended December 31, 2000 and ten month period ended December 31, 1999, respectively. Additionally, Liberty invested $735 million and $109 million in acquisitions of consolidated businesses during the year ended December 31, 2000 and the ten month period ended December 31, 1999.

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 $5,509 million, $3,187 million, $155 million and $2,199 million and repayments of $3,068 million, $2,211 million, $145 million and $609 million during the year ended December 31, 2000, the ten months ended December 31, 1999, the two months ended February 28, 1999 and the year ended December 31, 1998, respectively.

ACCOUNTING STANDARDS

SFAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, and SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging

Activities, is effective for the Company as of January 1, 2001. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities measured at fair value. The accounting for changes in the fair value of a derivative depends on the use of the derivative. Adoption of these new accounting standards will result in cumulative after-tax increases in net earnings of approximately $550 million and reductions in other comprehensive income of approximately $90 million in the first quarter of 2001. The adoption will also impact assets and liabilities recorded on the balance sheet.

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

Liberty is exposed to market risk in the normal course of its business operations 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. At December 31, 2000, Liberty was party to a foreign currency forward contract for 100 million Euros. Had the price of the Euro been 10% lower at December 31, 2000, Liberty would have recorded an additional unrealized loss on financial instruments of $9 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 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 the company from interest rate risk. As of December 31, 2000, the majority of Liberty's debt was composed of fixed rate debt resulting from the 1999 and 2000 issuances of senior notes and senior debentures for net proceeds of approximately $3.9 billion. The proceeds were used to repay floating rate debt, which reduced Liberty's exposure to interest rate risk associated with rising variable interest rates. However it increased Liberty's fair value interest rate risk. During 2000 market interest rates have declined. Liberty has taken advantage of these declining rates through the issuance of additional fixed rate debt at lower stated interest rates. Liberty believes these continued issuances of fixed rate debt that have a low stated rate and significant term to maturity best allows Liberty to take advantage of the current historically low interest rates. If market interest rates were 100 basis points (representing approximately a 14% increase over Liberty's effective cost of borrowing) higher throughout the year ended December 31, 2000 and 1999, Liberty would have recorded approximately $14 million and $16 million of additional interest expense, respectively. At December 31, 2000, the aggregate fair value of Liberty's senior notes and debentures was approximately $3.4 billion.

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. 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 we provide the following sensitivity analysis. If the stock price of our investments accounted for as available-for-sale securities had been 10% lower at December 31, 2000, and December 31, 1999, the value of such securities would have been lower, including consideration of our equity collars, by $1.7 billion and $2.4 billion, respectively. Our unrealized gains, net of taxes would have also been lower by $1.0 billion and $1.5 billion, respectively. If the stock price of our publicly traded investments accounted for using the equity method been 10% lower at December 31, 2000 and 1999, there would have been no impact on the carrying value of such investments. If the stock price of the Sprint PCS Group stock underlying Liberty's senior exchangeable debentures been 10% higher at December 31, 2000, Liberty's total debt and correspondingly, Liberty's interest expense would have been unchanged as the stock price of the Sprint PCS Group stock would have been below the respective initial exchange prices. Liberty's cash collateral account and debt balance under the securities lending agreement would be reduced by $34 million if the underlying shares of the Sprint PCS Group stock 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 security. 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 changes on the underlying 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 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.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements of Liberty Media Corporation are filed under this Item, beginning on Page II-20. The financial statement schedules required by Regulation S-X are filed under Item 14 of this Annual Report on Form 10-K.

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

None.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholder
Liberty Media Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Media Corporation and subsidiaries ("New Liberty" or "Successor") as of December 31, 2000 and 1999, and the related consolidated statements of operations and comprehensive earnings, stockholder's equity, and cash flows for the year ended December 31, 2000 and the period from March 1, 1999 to December 31, 1999 (Successor periods) and from January 1, 1999 to February 28, 1999 and for the year ended December 31, 1998 (Predecessor periods). These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the aforementioned Successor consolidated financial statements present fairly, in all material respects, the financial position of New Liberty as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the Successor periods, in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the aforementioned Predecessor consolidated financial statements present fairly, in all material respects, the results of their operations and their cash flows for the Predecessor periods, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the consolidated financial statements, effective March 9, 1999, AT&T Corp., parent company of New Liberty, acquired Tele-Communications, Inc., the former parent company of Liberty Media Corporation, in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial information for the periods after the acquisition is presented on a different cost basis than that for the periods before the acquisition and, therefore, is not comparable.

KPMG LLP

Denver, Colorado

February 26, 2001

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LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
(subsidiary of AT&T Corp.)

CONSOLIDATED BALANCE SHEETS

December 31, 2000 and 1999

	2000
	amounts in mil
Assets	
Current assets:	
Cash and cash equivalents	$ 1,295
Short-term investments	500
Trade and other receivables, net	307
Prepaid expenses and program rights	537
Deferred income tax assets (note 9)	242
Other current assets	73
Total current assets	2,954
Investments in affiliates, accounted for under the equity method, and related receivables (note 5)	20,379
Investments in available-for-sale securities and others (note 6)	19,035
Property and equipment, at cost	976
Less accumulated depreciation	131
	845
Intangible assets:	
Excess cost over acquired net assets (note 7)	11,138
Franchise costs	190
	11,328
Less accumulated amortization	1,047
	10,281
Other assets, at cost, net of accumulated amortization	682
Total assets	$54,176

LIBERTY MEDIA CORPORATION SUBSIDIARIES
(subsidiary of AT&T Corp.)

CONSOLIDATED BALANCE SHEETS

December 31, 2000 and 1999

	2000
	amou
Liabilities and Stockholder's Equity	
Current liabilities:	
Accounts payable and accrued liabilities	$ 473
Accrued stock compensation (note 11)	1,216
Program rights payable	179
Current portion of debt	1,094
Total current liabilities	2,962
Long-term debt (note 8)	5,269
Deferred income tax liabilities (note 9)	11,311
Other liabilities	62
Total liabilities	19,604
Minority interests in equity of subsidiaries (note 7)	348
Stockholder's equity (note 10):	
Preferred stock, $.0001 par value. Authorized 100,000 shares; no shares issued and outstanding	--
Class A common stock $.0001 par value. Authorized 1,000,000 shares; issued and outstanding 1,000 shares	--
Class B common stock $.0001 par value. Authorized 1,000,000 shares; issued and outstanding 1,000 shares	--
Class C common stock, $.0001 par value. Authorized 1,000,000 shares; issued and outstanding 1,000 shares	--
Additional paid-in capital	34,169
Accumulated other comprehensive (loss) earnings, net of taxes (note 12)	(397)
Accumulated earnings (deficit)	594
	34,366
Due to (from) related parties	(142)
Total stockholder's equity	34,224
Commitments and contingencies (note 13)	
Total liabilities and stockholder's equity	$ 54,176

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
(subsidiary of AT&T Corp.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS

	New Liberty		
	Year ended December 31, 2000	Ten months ended December 31, 1999	Tw... Feb...
		amounts in mil... (note 2)	
Revenue:			
Unaffiliated parties	$ 1,283	549	
Related parties (note 10)	243	180	
	1,526	729	
Operating costs and expenses:			
Operating	801	343	
Selling, general and administrative ("SG&A")	348	229	
Charges from related parties (note 10)	37	24	
Stock compensation-SG&A (note 11)	(950)	1,785	
Depreciation and amortization	853	562	
	1,089	2,943	
Operating income (loss)	437	(2,214)	
Other income (expense):			
Interest expense	(399)	(134)	
Adjustment to interest expense for contingent portion of exchangeable debentures	153	(153)	
Interest expense to related parties, net	--	(1)	
Dividend and interest income	301	242	
Share of losses of affiliates, net (note 5)	(1,731)	(904)	
Impairment of investments (note 6)	(1,476)	--	
Gains on dispositions, net (notes 5, 6 and 7)	7,339	4	
Gains on issuance of equity by affiliates and subsidiaries (notes 5 and 7)	--	--	
Unrealized gains on financial instruments	70	--	
Other, net	3	(4)	
	4,260	(950)	
Earnings (loss) before income taxes and minority interest	4,697	(3,164)	
Income tax (expense) benefit (note 9)	(2,190)	1,097	
Minority interests in losses of subsidiaries	62	92	
Net earnings (loss)	$ 2,569	(1,975)	

Other comprehensive earnings, net of taxes:		
Foreign currency translation adjustments	(202)	60
Unrealized holding (losses) gains arising during the period, net of reclassification adjustments	(6,713)	6,458
Other comprehensive (loss) earnings	(6,915)	6,518
Comprehensive (loss) earnings (note 12)	$(4,346)	4,543

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
(subsidiary of AT&T Corp.)

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

	Preferred stock	Common stock Class A	Class B	Class C
		amounts in millions		
Balance at January 1, 1998	--	--	--	--
Net earnings	--	--	--	--
Foreign currency translation adjustments	--	--	--	--
Unrealized gains on available-for-sale securities	--	--	--	--
Payments for call agreements	--	--	--	--
Gains in connection with issuances of stock of affiliates and subsidiaries (note 5)	--	--	--	--
Transfers from related party due to acquisitions of minority interests (note 7)	--	--	--	--
Assignment of option from related party	--	--	--	--
Transfer from related party for acquisition of cost investment	--	--	--	--
Other transfers from related parties, net	--	--	--	--
Balance at December 31, 1998	--	--	--	--
Net loss	--	--	--	--
Foreign currency translation adjustments	--	--	--	--
Unrealized gains on available-for-sale securities	--	--	--	--
Other transfers from (to) related parties, net	--	--	--	--
Balance on February 28, 1999	$ --	--	--	--

	Accumulated other comprehensive earnings, net of taxes	Accumulated (deficit) earnings	D (r p
	amounts in mil		
Balance at January 1, 1998	767	330	
Net earnings	--	622	
Foreign currency translation adjustments	2	--	
Unrealized gains on available-for-sale securities	2,417	--	
Payments for call agreements	--	--	
Gains in connection with issuances of affiliates and subsidiaries (note 5)	--	--	
Transfers from related party due to acquisitions of minority interests (note 7)	--	--	
Assignment of option from related party	--	--	
Transfer from related party for acquisition of cost investment	--	--	
Other transfers from related parties, net	--	--	
Balance at December 31, 1998	3,186	952	
Net loss	--	(70)	
Foreign currency translation adjustments	(15)	--	
Unrealized gains on available-for-sale securities	885	--	
Other transfers from (to) related parties, net	--	--	
Balance on February 28, 1999	4,056	882	

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LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
(subsidiary of AT&T Corp.)

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

	Preferred stock	Common stock Class A	Class B	Class C
		amounts in millions		
Balance on February 28, 1999	$ --	--	--	--

Balance at March 1, 1999	$ --	--	--	--
Net loss	--	--	--	--
Foreign currency translation adjustments	--	--	--	--
Recognition of previously unrealized losses on available-for-sale securities, net	--	--	--	--
Unrealized gains on available-for-sale securities	--	--	--	--
Transfer from related party for redemption of debentures	--	--	--	--
Gains in connection with issuances of stock of affiliates and subsidiaries (note 10)	--	--	--	--
Utilization of net operating losses of Liberty by AT&T (note 9)	--	--	--	--
Other transfers to related parties, net	--	--	--	--
Balance at December 31, 1999	$ --	--	--	--
Net earnings	--	--	--	--
Foreign currency translation adjustments	--	--	--	--
Recognition of previously unrealized gains on available-for-sale securities, net	--	--	--	--
Unrealized losses on available-for-sale securities	--	--	--	--
Contribution to equity from related party for acquisitions	--	--	--	--
Gains in connection with issuances of stock of affiliates and subsidiaries, net (note 10)	--	--	--	--
Note receivable from related party	--	--	--	--
Utilization of net operating losses of Liberty by AT&T (note 9)	--	--	--	--
Other transfers to related parties, net	--	--	--	--
Balance at December 31, 2000	$ --	--	--	--

	Accumulated other comprehensive earnings, net of taxes	Accumulated (deficit) earnings	D (r p
		amounts in mil	
Balance on February 28, 1999	4,056	882	
Balance at March 1, 1999	--	--	
Net loss	--	(1,975)	
Foreign currency translation adjustments	60	--	
Recognition of previously unrealized losses on available-for-sale securities, net	7	--	
Unrealized gains on available-for-sale securities	6,451	--	
Transfer from related party for redemption of debentures	--	--	

Gains in connection with issuances of stock of affiliates and subsidiaries (note 10)	--	--
Utilization of net operating losses of Liberty by AT&T (note 9)	--	--
Other transfers to related parties, net	--	--
Balance at December 31, 1999	6,518	(1,975)
Net earnings	--	2,569
Foreign currency translation adjustments	(202)	--
Recognition of previously unrealized on available-for-sale securities, net	(635)	--
Unrealized losses on available-for-sale securities	(6,078)	--
Contribution to equity from related party for acquisitions	--	--
Gains in connection with issuances of stock of affiliates and subsidiaries, net (note 10)	--	--
Note receivable from related party	--	--
Utilization of net operating losses of Liberty by AT&T (note 9)	--	--
Other transfers to related parties, net	--	--
Balance at December 31, 2000	(397)	594

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES
(subsidiary of AT&T Corp.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	New Liberty	
	Year ended December 31, 2000	Ten months ended December 31, 1999
		amo
Cash flows from operating activities:		
Net earnings (loss)	$ 2,569	(1,975)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	853	562
Stock compensation	(950)	1,785
Payments of stock compensation	(319)	(111)
Share of losses of affiliates, net	1,731	904
Deferred income tax expense (benefit)	2,325	(1,025)
Intergroup tax allocation	(141)	(75)
Cash payment from AT&T pursuant to tax sharing agreement	414	1

Minority interests in losses of subsidiaries	(62)	(92)
Unrealized gains on financial instruments	(70)	--
Gains on issuance of equity by affiliates and subsidiaries	--	--
Gains on disposition of assets, net	(7,339)	(4)
Impairment of investments	1,476	--
Noncash interest	(138)	153
Other noncash charges	--	3
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions:		
Receivables	(134)	7
Prepaid expenses and program rights	(121)	(119)
Payables and other current liabilities	87	119
Net cash provided (used) by operating activities	181	133
Cash flows used by investing activities:		
Cash paid for acquisitions	(735)	(109)
Capital expended for property and equipment	(221)	(40)
Investments in and loans to affiliates and others	(3,372)	(2,596)
Purchases of marketable securities	(848)	(7,757)
Sales and maturities of marketable securities	1,820	5,725
Cash proceeds from dispositions	456	130
Other, net	34	(11)
Net cash used by investing activities	(2,866)	(4,658)
Cash flows from financing activities:		
Borrowings of debt	5,509	3,187
Repayments of debt	(3,068)	(2,211)
Net proceeds from issuance of stock by subsidiaries	121	123
Payments for call agreements	--	--
Cash transfers (to) from related parties	(268)	(159)
Other, net	(28)	(20)
Net cash provided (used) by financing activities	2,266	920
Net (decrease) increase in cash and cash equivalents	(419)	(3,605)
Cash and cash equivalents at beginning of year	1,714	5,319
Cash and cash equivalents at end of year	$ 1,295	1,714

See accompanying notes to consolidated financial statements.

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LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998

(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Media Corporation ("Liberty" or the "Company") and those of all majority-owned subsidiaries. The AT&T Class A Liberty Media Group common stock and the AT&T Class B Liberty Media Group common stock (together, the AT&T Liberty Media Group tracking stock) are tracking stocks of AT&T designed to reflect the economic performance of the businesses and assets of AT&T attributed to the Liberty Media Group. The subsidiaries and assets of Liberty Media Corporation are attributed to the Liberty Media Group. All significant intercompany accounts and transactions have been eliminated in consolidation. Effective March 9, 1999, AT&T Corp. ("AT&T") indirectly owns 100% of the outstanding common stock of Liberty. Previously, Liberty was a wholly owned subsidiary of the former Tele-Communications, Inc. ("TCI").

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 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.

(2) Merger with AT&T

On March 9, 1999, AT&T acquired TCI in a merger transaction (the "AT&T Merger") whereby a wholly owned subsidiary of AT&T merged with and into TCI, and TCI thereby became a subsidiary of AT&T. As a result of the AT&T Merger, each series of TCI common stock was converted into a class of AT&T common stock subject to applicable exchange ratios. The AT&T Merger has been accounted for using the purchase method. Accordingly, Liberty's assets and liabilities have been recorded at their respective fair values therefore, creating a new cost basis. For financial reporting purposes the AT&T 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". The "Company" and "Liberty" refers to both New Liberty and Old Liberty.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

The following table represents the summary balance sheet of Old Liberty at February 28, 1999, prior to the AT&T Merger and the opening summary balance sheet of New Liberty subsequent to the AT&T Merger. Certain pre-merger transactions occurring between March 1, 1999, and March 9, 1999, that affected Old Liberty's equity, gains on issuance of equity by affiliates and subsidiaries and stock compensation have been reflected in the two-month period ended February 28, 1999.

	New Liberty	Old Liberty
	amounts in millions	
Assets:		
Cash and cash equivalents	$ 5,319	31
Other current assets	434	410
Investments in affiliates	17,116	3,971
Investments in available-for-sale securities	13,053	11,974
Property and equipment, net	125	111
Intangibles and other assets	11,159	389
	$47,206	16,886
Liabilities and Equity:		
Current liabilities	$ 1,675	1,051
Long-term debt	1,845	2,087
Deferred income taxes	9,963	4,147
Other liabilities	19	90
Total liabilities	13,502	7,375
Minority interests in equity of subsidiaries	39	62
Stockholder's equity	33,665	9,449
	$47,206	16,886

(3) Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Receivables

Receivables are reflected net of an allowance for doubtful accounts. Such allowance at December 31, 2000 and 1999 was not material.

Program Rights

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

Investments

All marketable equity securities held by the Company are classified as available-for-sale and are carried at fair value. Unrealized holding gains and losses on securities classified as available-for-

sale are carried net of taxes as a component of accumulated other comprehensive earnings in stockholder's equity. Realized gains and losses are determined on a specific-identification basis.

Other investments in which the ownership interest is less than 20% and are not considered marketable securities are carried at the lower of cost or net realizable value. For those investments in affiliates in which the Company's voting interest is 20% to 50%, the equity method of accounting is generally used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliates as they occur rather then as dividends or other distributions are received, limited to the extent of the Company's investment in, advances to and commitments for the investee. The Company's share of net earnings or losses of affiliates includes the amortization of the difference between the Company's investment and its share of the net assets of the investee.

Subsequent to the AT&T Merger, changes in the Company's proportionate share of the underlying equity of a subsidiary or equity method investee, which result from the issuance of additional equity securities by such subsidiary or equity investee, are recognized as gains or losses in the Company's consolidated statements of stockholder's equity.

The company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is deemed to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the consolidated statements of operations as an impairment of investments.

Property and Equipment

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

Excess Cost Over Acquired Net Assets

Excess cost over acquired net assets consists of the difference between the cost of acquiring non-cable entities and amounts assigned to their tangible assets. Such amounts are amortized on a straight-line basis over periods ranging from 5 to 20 years.

Franchise Costs

Franchise costs generally include the difference between the cost of acquiring cable companies and amounts allocated to their tangible assets. Such amounts are amortized on a straight-line basis over 20 years.

Impairment of Long-lived Assets

The Company periodically reviews the carrying amounts of property, plant and equipment and its intangible assets to determine whether current events or circumstances warrant adjustments to such carrying amounts. If an impairment adjustment is deemed necessary, such loss is measured by the amount that the carrying value of such assets exceeds their fair value. Considerable management judgment is necessary to estimate the fair value of assets, accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

Minority Interests

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

Preferred stock (and accumulated dividends thereon) of subsidiaries are included in minority interests in equity of subsidiaries. Dividend requirements on such preferred stocks are reflected as minority interests in earnings of subsidiaries in the accompanying consolidated statements of operations and comprehensive earnings.

Foreign Currency Translation

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

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

Unless otherwise indicated, convenience translations of foreign currencies into U.S. dollars are calculated using the applicable spot rate at December 31, 2000, as published in The Wall Street Journal.

Derivative Instruments and Hedging Activities

The Company uses various derivative instruments including equity collars, put spread collars, and interest rate swaps to manage fair value risk associated with certain investments and interest rate risk on certain indebtedness. Derivative instruments are generally not used for speculative purposes. The derivative instruments may involve elements of credit and market risk in excess of amounts recognized in the financial statements. The Company monitors its positions and the credit quality of counter parties, consisting primarily of major financial institutions, and does not anticipate nonperformance by any counter-party.

Disclosures regarding the fair value of derivative and other financial instruments are included in notes 6 and 8. Fair value of these instruments is based on market quotes or option pricing models using the historical volatility of the underlying security.

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by Statement of Financial Accounting Standards No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of

FASB Statement No. 133, and Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, is effective for the Company as of January 1, 2001. Statement of Financial Accounting Standards No. 133 requires that an entity recognize all derivatives as either assets or liabilities measured at fair value. The accounting for changes in the fair value of a derivative depends on the use of the derivative. Adoption of these new accounting standards will result in cumulative after-tax increases in net earnings of approximately $550 million and reductions in other comprehensive earnings of approximately $90 million in the first quarter of 2001. The adoption will also impact assets and liabilities recorded on the balance sheet.

Revenue Recognition

Programming revenue is recognized in the period during which programming is provided, pursuant to affiliation agreements. Advertising revenue is recognized, net of agency commissions, in the period during which underlying advertisements are broadcast. Revenue from post-production services is recognized in the period the services are rendered. Cable and other distribution revenue is recognized in the period that services are rendered. Cable installation revenue is recognized in the period the related services are provided to the extent of direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that customers are expected to remain connected to the cable distribution system.

Stock Based Compensation

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("Statement 123"), establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. As allowed by Statement 123, Liberty continues to account for stock-based compensation pursuant to Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25").

Compensation relating to stock options with tandem stock appreciation rights ("SARs") granted to employees of Liberty and its subsidiaries have been recorded as variable award plans in the accompanying consolidated financial statements pursuant to APB Opinion No. 25 and related interpretations. Liabilities under these awards are subject to future adjustment based upon vesting provisions and the market value of the underlying security and, ultimately, on the final determination of market value when the rights are exercised. The amount of compensation under Statement 123 would not have been significantly different from what has been reflected in the accompanying consolidated financial statements due to substantially all of Liberty's stock option plans having tandem SARs, which are treated as liabilities for financial statement purposes and require periodic remeasurement under both APB Opinion No. 25 and Statement 123.

Agreements that may require Liberty to reacquire interests in subsidiaries held by officers and employees in the future are marked-to-market periodically with corresponding adjustments being recorded to stock compensation expense.

Reclassifications

Certain prior period amounts have been reclassified for comparability with the 2000 presentation.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(4) Supplemental Disclosures to Consolidated Statements of Cash Flows

	New Liberty		Old Libe
	Year ended December 31,	Ten months ended December 31,	Two months ended February 28,
	2000	1999	1999
	amounts in millions		
Cash paid for acquisitions:			
Fair value of assets acquired	$ 2,345	122	--
Net liabilities assumed	(1,208)	(13)	--
Deferred tax asset (liability)	260	--	--
Minority interest	(445)	--	--
Contribution to equity for acquisitions	(217)	--	--
Other	--	--	--
Cash paid for acquisitions	$ 735	109	--
Cash paid for interest	$ 335	93	32
Cash paid for income taxes	$ --	--	--

During the ten months ended December 31, 1999 certain subsidiaries with a carrying value of $135 million were exchanged for a cost method investment in an online music venture.

The following table reflects the change in cash and cash equivalents resulting from the AT&T Merger and related restructuring transactions (amounts in millions):

Cash and cash equivalents prior to the AT&T Merger	$ 31
Cash contribution in connection with the AT&T Merger	5,464
Cash paid to TCI for certain warrants	(176)
Cash and cash equivalents subsequent to the AT&T Merger	$ 5,319

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(5) Investments in Affiliates Accounted for under the Equity Method

Liberty has various investments accounted for under the equity method. The following table includes Liberty's carrying amount and percentage ownership of the more significant investments in affiliates at December 31, 2000 and the carrying amount at December 31, 1999:

	December 31, 2000		Dec
	Percentage Ownership	Carrying Amount	C
		dollar amounts in millions	
USA Networks, Inc. ("USAI") and related investments	21%	$ 2,824	
Telewest Communications plc ("Telewest")	25%	2,712	
Discovery Communications, Inc. ("Discovery")	49%	3,133	
Gemstar-TV Guide International, Inc. ("Gemstar")	21%	5,855	
QVC, Inc. ("QVC")	43%	2,508	
UnitedGlobalCom, Inc. ("UnitedGlobalCom")	11%	314	
TV Guide		--	
Foreign investments (other than Telewest)	various	1,754	
Other	various	1,279	
		$ 20,379	

The following table reflects Liberty's share of earnings (losses) of affiliates:

	New Liberty		
	Year ended December 31, 2000	Ten months ended December 31, 1999	Two e Febr
		amounts in millio	
USAI and related investments	$ (36)	(20)	
Telewest	(441)	(222)	
Discovery	(293)	(269)	
Gemstar	(254)	--	
QVC	(12)	(11)	
UnitedGlobalCom	(211)	23	
Foreign investments	(350)	(208)	
PCS Ventures (note 6)	--	--	

Other	(134)	(197)	
	$ (1,731)	(904)	

The $15 billion aggregate excess of Liberty's aggregate carrying amount in its affiliates over Liberty's proportionate share of its affiliates' net assets is being amortized over estimated useful lives ranging from 2 to 20 years. Such amortization was approximately $936 million, $463 million, $9 million and $8 million for the year ended December 31, 2000, the ten months ended December 31, 1999, the two months ended February 28, 1999 and the year ended December 31, 1998, respectively, and is included in share of losses of affiliates.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

Certain of Liberty's affiliates are general partnerships and, as such, are liable as a matter of partnership law for all debts (other than non-recourse debts) of that partnership in the event liabilities of that partnership were to exceed its assets.

Summarized unaudited combined financial information for affiliates is as follows:

	December 31,	
	2000	1999
	amounts in millions	
Combined Financial Position		
Investments	$ 1,795	1,415
Property and equipment, net	11,294	8,885
Other intangibles, net	31,430	19,778
Other assets, net	9,682	9,207
Total assets	$54,201	39,285
Debt	$19,781	17,210
Other liabilities	15,158	12,645
Owners' equity	19,262	9,430
Total liabilities and equity	$54,201	39,285

	Year ended December 31, 2000	Ten months ended December 31, 1999	Two months ended February 28, 1999
		amounts in millions	
Combined Operations			
Revenue	$ 13,743	10,492	2,341
Operating expenses	(12,193)	(9,066)	(1,894)
Depreciation and amortization	(2,227)	(1,461)	(353)
Operating income (loss)	(677)	(35)	94
Interest expense	(1,051)	(886)	(281)
Other, net	169	(151)	(127)
Net loss	$ (1,559)	(1,072)	(314)

USAI

USAI owns and operates businesses in network and television production, television broadcasting, electronic retailing, ticketing operations, and internet services. At December 31, 2000, Liberty directly and indirectly held 74.4 million shares of USAI's common stock. Liberty also held shares directly in certain subsidiaries of USAI which are exchangeable into 79 million shares of USAI common stock. Liberty's direct ownership of USAI is currently restricted by Federal Communications Commission ("FCC") regulations. The exchange of these shares can be accomplished only if there is a change to existing regulations or if Liberty obtains permission from the FCC. If the exchange of subsidiary stock into USAI common stock was completed at December 31, 2000, Liberty would own 153.4 million shares or approximately 21% (on a fully-diluted basis) of USAI common stock. USAI's common stock had a closing market value of $19.44 per share on December 31, 2000. Liberty accounts for its investments in USAI and related subsidiaries on a combined basis under the equity method.

In February 1998, USAI paid cash and issued shares and one of its subsidiaries issued shares in connection with the acquisition of certain assets from Universal Studios, Inc. (the "Universal Transaction"). Liberty recorded an increase to its investment in USAI of $54 million and an

increase to additional paid-in-capital of $33 million (after deducting deferred income taxes of $21 million) as a result of this share issuance.

USAI issued shares in June 1998 to acquire the remaining stock of Ticketmaster Group, Inc. which it did not previously own (the "Ticketmaster Transaction"). Liberty recorded an increase to its investment in USAI of $52 million and an increase to additional paid-in-capital of $31 million (after deducting deferred income taxes of $21 million) as a result of this share issuance. No gain was recognized in the consolidated statement of operations and comprehensive earnings for either the Universal Transaction or the Ticketmaster Transaction due primarily to Liberty's intention to purchase additional equity interests in USAI.

In connection with the Universal Transaction, Liberty was granted an antidilutive right with respect to any future issuance of USAI's common stock, subject to certain limitations, that enables it to maintain its percentage ownership interests in USAI.

Telewest

Telewest currently operates and constructs cable television and telephone systems in the UK. Flextech Limited ("Flextech") develops and sells a variety of television programming in the UK. In April 2000, Telewest acquired Flextech. As a result, each share of Flextech was exchanged for 3.78 new Telewest shares. Prior to the acquisition, Liberty owned an approximate 37% equity interest in Flextech and a 22% equity interest in Telewest. As a result of the acquisition, Liberty owns an approximate 24.6% equity interest in Telewest. Liberty recognized a $649 million gain (excluding related tax expense of $227 million) on the acquisition based on the difference between the carrying value of Liberty's interest in Flextech and the fair value of the Telewest shares received. At December 31, 2000 Liberty indirectly owned 724 million of the issued and outstanding Telewest ordinary shares. Telewest's ordinary shares reported a closing price of $1.58 per share on December 31, 2000.

Effective September 1, 1998, Telewest and General Cable PLC ("General Cable") consummated a merger (the "General Cable Merger") in which holders of General Cable received New Telewest shares and cash. Based upon Telewest's closing price of $1.51 per share on April 14, 1998, the General Cable Merger was valued at approximately $1.1 billion. The cash portion of the General Cable Merger was financed through an offer to qualifying Telewest shareholders for the purchase of approximately 261 million new Telewest shares at a price of $1.57 per share (the "Telewest Offer"). Liberty subscribed to 85 million Telewest ordinary shares at an aggregate cost of $133 million in connection with the Telewest Offer. In connection with the General Cable Merger, Liberty converted its entire holdings of Telewest convertible preference shares (133 million shares) into Telewest ordinary shares. As a result of the General Cable Merger, Liberty's ownership interest in Telewest decreased to 22%. In connection with the increase in Telewest's equity, net of the dilution of Liberty's interest in Telewest, that resulted from the General Cable Merger, Liberty recorded a non-cash gain of $60 million (before deducting deferred income taxes of $21 million) during 1998.

Gemstar

Gemstar is a leading global technology and media company focused on consumer entertainment. The common stock of Gemstar is publicly traded. At December 31, 2000, Liberty held 87.5 million shares of Gemstar common stock. Gemstar's stock reported a closing price of $46.13 per share on December 31, 2000.

On July 12, 2000, TV Guide and Gemstar completed a merger whereby Gemstar acquired TV Guide. TV Guide shareholders received .6573 shares of Gemstar common stock in exchange for each share of 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 owns approximately 21.4% of Gemstar. Liberty recognized a $4.4 billion gain (before deducting deferred income taxes of $1.7 billion) on such transaction based on the difference between the carrying value of Liberty's interest in TV Guide and the fair value of the Gemstar securities received.

UnitedGlobalCom

UnitedGlobalCom is a global broadband communications provider of video, voice and data services with operations in over 20 countries throughout the world. At December 31, 2000, Liberty owned an approximate 10.9% economic ownership interest representing an approximate 36.8% voting interest in UnitedGlobalCom. Liberty owns 9.9 million shares of UnitedGlobalCom Class B common stock and .6 million shares of UnitedGlobalCom Class A common stock. The UnitedGlobalCom Class B common stock is convertible, on a one-for-one basis, into UnitedGlobalCom Class A common stock. UnitedGlobalCom's Class A common stock reported a closing price of $13.63 per share on December 31, 2000.

(6) Investments in Available-for-sale Securities and Others

Investments in available-for-sale securities and others are summarized as follows:

	December 31, 2000	December 31, 1999
	amounts in millions	
Sprint Corporation ("Sprint PCS")	$ 5,192	10,186
Time Warner, Inc. ("Time Warner")	6,325	8,202
News Corp.	2,342	2,403
Motorola, Inc. ("Motorola")	1,982	3,430
Other available-for-sale securities	2,989	3,765
Other investments, at cost, and related receivables	705	985
	19,535	28,971
Less short-term investments	500	378

	$19,035	28,593
	=======	=======

Sprint PCS

Liberty and certain of its consolidated subsidiaries collectively are the beneficial owners of approximately 197 million shares of Sprint PCS Group Stock and certain other instruments convertible into such securities (the "Sprint Securities"). The Sprint PCS Group Stock is a tracking stock intended to reflect the performance of Sprint's domestic wireless PCS operations. Liberty accounts for its investment in the Sprint Securities as an available-for-sale security.

Pursuant to a final judgment (the "Final Judgment") agreed to by Liberty, AT&T and the United States Department of Justice (the "DOJ") on December 31, 1998, Liberty transferred all of its beneficially owned securities of Sprint PCS to a trustee (the "Trustee") prior to the AT&T Merger. The Final Judgment, which was entered by the United States District Court of 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 Securities 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 Securities beneficially owned by Liberty.

The Final Judgment requires that the Trustee vote the Sprint Securities beneficially owned by Liberty and its consolidated subsidiaries in the same proportion as other holders of Sprint

Securities so long as such securities are held by the trust. The Final Judgment also prohibits the acquisition by Liberty of additional Sprint Securities, with certain exceptions, without the prior written consent of the DOJ.

On November 23, 1998, Liberty exchanged its investments in certain wireless businesses ("PCS Ventures") for the Sprint Securities (the "PCS Exchange"). Liberty recorded a non-cash gain of $1.9 billion (before deducting deferred income taxes of $647 million) on the PCS Exchange based on the difference between the carrying amount of Liberty's equity method interest in the PCS Ventures and the fair value of the Sprint Securities received.

Time Warner

Liberty holds shares of a series of Time Warner's common stock with limited voting rights (the "TW Exchange Stock") that are convertible into an aggregate of 114 million shares of Time Warner common stock. Liberty accounts for its investment in Time Warner as an available-for-sale security.

On January 11, 2001, Time Warner and America Online, Inc. completed their merger, pursuant to which each share of the Time Warner common stock held by Liberty was converted into 1.5 shares of an identical series of stock of AOL Time Warner, Inc. ("AOL Time Warner"). Following this conversion, Liberty owns approximately 171 million shares of AOL Time Warner, which represents an approximate 4% interest in the combined entity.

Pursuant to an option granted by Liberty, Time Warner acquired Southern Satellite Systems, Inc., effective January 1, 1998, for $213 million in cash. Liberty recognized a $515 million pre-tax gain in connection with such transaction in the first quarter of 1998.

News Corp.

On July 15, 1999, News Corp. acquired Liberty's 50% interest in Fox/Liberty Networks in exchange for 51.8 million News Corp. American Depository Receipts ("ADRs") representing preferred limited voting ordinary shares of News Corp. Of the 51.8 million ADRs received, 3.6 million were placed in an escrow (the "Escrow Shares") pending an independent third party valuation, as of the third anniversary of the transaction. The remainder of the 51.8 million ADRs received (the "Restricted Shares") are subject to a two-year lockup which restricts any transfer of the securities for a period of two years from the date of the transaction. Liberty recorded the Restricted Shares at fair value of $1,403 million, which included a discount from market value due to the two-year restriction on transfer, resulting in a $13 million gain on the transaction. In a related transaction, Liberty acquired from News Corp. 28.1 million additional ADRs representing preferred limited voting ordinary shares of News Corp. for approximately $695 million. Liberty accounts for its investment in News Corp. as an available-for-sale security.

Motorola

On January 5, 2000, Motorola completed the acquisition of General Instrument through a merger of General Instrument with a wholly owned subsidiary of Motorola. In connection with the merger Liberty received 54 million shares and warrants to purchase 37 million shares of Motorola common stock in exchange for its holdings in General Instrument. Liberty recognized a $2.2 billion gain (excluding related tax expense of $883 million) on such transaction during the first quarter of 2000 based on the difference between the carrying value of Liberty's interest in General Instrument and the fair value of the Motorola securities received. During 2000, Liberty exercised a warrant to purchase approximately 9 million shares of Motorola common stock at an exercise price of $8.26 per share. At December 31, 2000 Liberty holds approximately 63 million shares of

Motorola common stock and vested warrants to purchase an additional 28 million shares of such common stock.

Investments in available-for-sale securities are summarized as follows:

	December 31, 2000	December 31, 1999
	amounts in millions	
Equity securities:		
Cost basis	$ 17,641	13,657
Gross unrealized holding gains	2,254	11,453
Gross unrealized holding losses	(2,620)	(646)
Fair value	17,275	24,464
Debt securities:		
Cost basis	1,533	2,017
Gross unrealized holding gains	86	--
Gross unrealized holding losses	(64)	(22)
Fair value	$ 1,555	1,995

Management estimates the fair market value of all of its investments in available-for-sale securities and others aggregated $19.7 billion and $29.2 billion at December 31, 2000 and December 31, 1999, respectively. Management calculates market values using a variety of approaches including multiple of cash flow, per subscriber value, a value of comparable public or private businesses or publicly quoted market prices. No independent appraisals were conducted for those assets.

Impairment of Investments

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

Investments	Year ended December 31, 2000
Motorola	$ 1,276
Primedia	103
Others	97
	$ 1,476

Equity Collars and Put Spread Collars

The Company enters into equity collars and put spread collars to manage pricing risk associated with its investments in certain marketable securities. These instruments are recorded at fair value based on option pricing models using the historical volatility of the underlying security. Accounting for changes in fair value of these instruments depends on the amount of correlation between the change in the fair value of the instrument and the offsetting change in the underlying equity security. Equity collars generally have a high correlation with the underlying

security, while put spread collars generally do not have high correlation. Accordingly, changes in the fair value of the equity collar are recorded as an adjustment to the carrying value of the related investment with an offsetting change recorded in other comprehensive earnings. The offsetting change in the value of put spread collars is recorded in the consolidated statements of operations as unrealized gains on financial instruments. The following table illustrates the fair value of the Company's equity collars and put spread collars as follows:

	December 31,	
Type of Derivative	2000	1999
	amounts in millions	
Equity collars	$ 1,293	(633)
Put spread collars	188	--

(7) Acquisitions and Dispositions

2000

Associated Group, Inc. ("Associated Group")

On January 14, 2000, Liberty completed its acquisition of Associated Group pursuant to a merger agreement among AT&T, Liberty and Associated Group. Under the merger agreement, each share of Associated Group's Class A common stock and Class B common stock was converted into 0.49634 shares of AT&T common stock and 2.41422 shares of AT&T Class A Liberty Media Group common stock. Prior to the merger, Associated Group's primary assets were (1) approximately 19.7 million shares of AT&T common stock, (2) approximately 46.8 million shares of AT&T Class A Liberty Media Group common stock, (3) approximately 10.6 million shares of AT&T Class B Liberty Media Group common stock, (4) approximately 21.4 million shares of common stock of Teligent, Inc. ("Teligent"), and (5) all of the outstanding shares of common stock of TruePosition, Inc., which provides location services for wireless carriers and users designed to determine the location of any wireless transmitter, including cellular and PCS telephones. Immediately following the completion of the merger, all of the assets and businesses of Associated Group were transferred to Liberty. All of the shares of AT&T common stock, AT&T Class A Liberty Media Group common stock and AT&T Class B Liberty Media Group common stock previously held by Associated Group were retired by AT&T.

The acquisition of Associated Group was accounted for as a purchase, and the $17 million excess of the fair value of the net assets acquired over the purchase price is being amortized over ten years. As a result of the issuance of AT&T Class A Liberty Media Group common stock, net of the shares of AT&T Class A Liberty Media Group common stock acquired in this transaction, Liberty recorded a $778 million increase to additional paid-in-capital, which represents the total purchase price of this acquisition.

Liberty Satellite and Technology, Inc. ("LSAT")

On March 16, 2000, Liberty purchased shares of preferred stock in TCI Satellite Entertainment, Inc. in exchange for Liberty's economic interest in approximately 5 million shares of Sprint PCS Group stock, for a total purchase price of $300 million. During the third quarter of 2000, TCI Satellite Entertainment, Inc. changed its name to LSAT. Liberty received 150,000 shares of LSAT Series A 12% Cumulative Preferred Stock and 150,000 shares of LSAT Series B 8% Cumulative Convertible Voting Preferred Stock. The Series A preferred stock does not have voting rights, while the Series B preferred stock gives Liberty approximately 85% of the voting power of LSAT. In connection with this transaction, Liberty realized a $211 million gain (before related tax

expense of $84 million) based on the difference between the cost basis and fair value of the economic interest in the Sprint PCS Group stock exchanged.

Ascent Entertainment Group, Inc. ("Ascent")

On March 28, 2000, Liberty completed its cash tender offer for the outstanding common stock of Ascent at a price of $15.25 per share. Approximately 85% of the outstanding shares of common stock of Ascent were tendered in the offer and Liberty paid approximately $385 million. On June 8, 2000, Liberty completed its acquisition of 100% of Ascent for an additional $67 million. The total purchase price for the acquisition was $452 million. Such transaction was accounted for as a purchase and the $228 million excess of the purchase price over the fair value of the net assets acquired is being amortized over 5 years.

Liberty Livewire Corporation ("Liberty Livewire")

On April 10, 2000, Liberty acquired all of the outstanding common stock of Four Media Company ("Four Media") for total consideration of $462 million comprised of $123 million in cash, $194 million of assumed debt, 6.4 million shares of AT&T Class A Liberty Media Group common stock and a warrant to purchase approximately 700,000 shares of AT&T Class A Liberty Media Group common stock at an exercise price of $23 per share. The acquisition was accounted for as a purchase. In connection with the AT&T Class A Liberty Media Group common stock issued in this transaction, Liberty recorded a $145 million increase to additional paid-in-capital, and the $276 million excess of the purchase price over the fair value of the net assets acquired is being amortized over 20 years. Four Media provides technical and creative services to owners, producers and distributors of television programming, feature films and other entertainment products both domestically and internationally.

On June 9, 2000, Liberty acquired a controlling interest in The Todd-AO Corporation ("Todd-AO"), consisting of approximately 6.5 million shares of Class B Common Stock of Todd-AO, representing 60% of the equity and approximately 94% of the voting power of Todd-AO outstanding immediately prior to the closing, in exchange for approximately 5.4 million shares of AT&T Class A Liberty Media Group common stock. The acquisition was accounted for as a purchase. In connection with the AT&T Class A Liberty Media Group common stock issued in this transaction, Liberty recorded a $106 million increase to additional paid-in-capital, which represents the purchase price, and the $96 million excess of the purchase price over the fair value of the net assets acquired is being amortized over 20 years. Todd-AO provides sound, video and ancillary post production and distribution services to the motion picture and television industries in the United States and Europe.

Immediately following the closing of such transaction, Liberty contributed to Todd-AO 100% of the capital stock of Four Media, in exchange for approximately 16.6 million shares of the Class B Common Stock of Todd-AO increasing Liberty's ownership interest in Todd-AO to approximately 84% of the equity and approximately 98% of the voting power of Todd-AO outstanding immediately following the closing.

Following Liberty's acquisition of Todd-AO, and the contribution by Liberty to Todd-AO of Liberty's ownership in Four Media, 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 ("Soundelux") for $90 million. Immediately following such transaction, the assets of Soundelux were contributed to Liberty Livewire in exchange for approximately 8.2 million additional shares of Liberty Livewire Class B Common Stock. Following this contribution, Liberty's ownership in Liberty Livewire increased to approximately 88% of the equity and approximately 99% of the voting power of Liberty Livewire outstanding immediately following the contribution.

1999

TV Guide

On March 1, 1999, United Video Satellite Group, Inc. ("UVSG") and News Corp. completed a transaction whereby UVSG acquired News Corp.'s TV Guide properties and UVSG was renamed TV Guide. Upon completion of this transaction, and another transaction completed by TV Guide on the same date, Liberty owned an economic interest of approximately 44% and controlled approximately 49% of the voting power of TV Guide. In connection with the increase in TV Guide's equity, net of dilution of Liberty's ownership interest in TV Guide, Liberty recognized a gain of $372 million (before deducting deferred income taxes of $147 million). Upon consummation, Liberty began accounting for its interest in TV Guide under the equity method of accounting.

1998

Pramer S.A. ("Pramer")

On August 24, 1998, Liberty purchased 100% of the issued and outstanding common stock of Pramer, an Argentine programming company, for a total purchase price of $97 million, which was satisfied by $32 million in cash and the issuance of notes payable in the amount of $65 million. Such transaction was accounted for under the purchase method. Accordingly, the results of operations of Pramer have been consolidated with those of Liberty since August 24, 1998. The $101 million excess cost over acquired net assets is being amortized over ten years.

Other

During 1998, TCI acquired certain minority interests of TV Guide and Liberty Media International, Inc. (formerly named Tele-Communications International, Inc.). The transactions were accounted for as acquisitions of minority interests. The aggregate value assigned to the shares issued by TCI was based upon the market value of the shares issued at the time each transaction was announced. Immediately following the transactions TCI contributed the minority interests acquired to Liberty. The contributions were recorded as an increase to additional paid-in-capital of $772 million, which represents the purchase price of such acquisitions.

Pro Forma Information

The following unaudited pro forma revenue and net earnings (loss) for the years ended December 31, 2000 and 1999 were prepared assuming the 2000 acquisitions discussed above and the AT&T Merger occurred on January 1, 1999. These pro forma amounts are not necessarily indicative of operating results that would have occurred if the acquisitions discussed above and the AT&T Merger had occurred on January 1, 1999.

	Years ended December 31, 2000	Years ended December 31, 1999
	amounts in millions	
Revenue	$ 1,769	1,754

Net earnings (loss)	$ 2,497	(2,826)

(8) Long-Term Debt

Debt is summarized as follows:

	Weighted average interest rate 2000	December 31, 2000	December 31, 1999
	amounts in millions		
Parent company debt:			
Senior notes	7.88%	$ 742	741
Senior debentures	8.33%	1,486	494
Senior exchangeable debentures	3.70%	1,679	1,022
Securities lending agreement	6.53%	338	--
Bank credit facilities	7.43%	475	390
Other debt	8.00%	242	--
		4,962	2,647
Debt of subsidiaries:			
Bank credit facilities	8.41%	1,129	573
Senior notes	11.88%	179	--
Other debt, at varying rates		93	57
		1,401	630
Total debt		6,363	3,277
Less current maturities		1,094	554
Total long-term debt		$5,269	2,723

Senior Notes and Debentures

On July 7, 1999, Liberty issued $750 million of 7-7/8% Senior Notes due 2009 and issued $500 million of 8-1/2% Senior Debentures due 2029 for aggregate cash proceeds of $741 million and $494 million, respectively. Interest on both issuances is payable on January 15 and July 15 of each year.

On February 2, 2000, Liberty issued $1 billion of 8-1/4% Senior Debentures due 2030 for aggregate cash proceeds of $983 million. Interest on these debentures is payable on February 1 and August 1 of each year.

The senior notes and debentures are stated net of an aggregate unamortized discount of $22 million and $15 million at December 31, 2000 and 1999, respectively, which is being amortized to interest expense in the consolidated statements of operations.

Senior Exchangeable Debentures

On November 16, 1999, Liberty issued $869 million of 4% Senior Exchangeable Debentures due 2030 for aggregate cash proceeds of $854 million. Interest is payable on May 15 and November 15 of each year. Each $1,000 debenture is exchangeable at the holder's option for the value of 22.9486 shares of Sprint PCS Group stock. After the later of December 31, 2001 or the date Liberty's ownership level in the Sprint PCS Group falls below a specified level, Liberty may, at its election, pay the exchange value in cash, Sprint PCS Group stock or a combination thereof. Prior to such time, the exchange value must be paid in cash.

On February 10, 2000, Liberty issued $750 million of 3-3/4% Senior Exchangeable Debentures due 2030 for aggregate cash proceeds of $735 million. On March 8, 2000, an additional $60

million of 3-3/4% Senior Exchangeable Debentures due 2030 were issued for aggregate proceeds of $59 million. Interest is payable on February 15 and August 15 of each year. Each $1,000 debenture is exchangeable at the holder's option for the value of 16.7764 shares of Sprint PCS Group stock. After the later of February 15, 2002 or the date Liberty's ownership level in the Sprint PCS Group falls below a specified level, Liberty may, at its election, pay the exchange value in cash, Sprint PCS Group stock or a combination thereof. Prior to such time, the exchange value must be paid in cash.

The carrying amount of the senior exchangeable debentures is adjusted based on the fair value of the underlying Sprint PCS Group stock. Increases or decreases in the value of the underlying Sprint PCS Group stock above the principal amount of the senior exchangeable debentures (the "Contingent Portion") is recorded as an adjustment to interest expense in the consolidated statements of operations and comprehensive earnings. If the value of the underlying Sprint PCS Group stock decreases below the principal amount of the senior exchangeable debentures there is no effect on the principal amount of such debentures.

Securities Lending Agreement

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 $338 million at December 31, 2000. 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. Unutilized cash collateral of $49 million at December 31, 2000 represents restricted cash and is included in other current assets on the consolidated balance sheets. At December 31, 2000, Liberty had utilized $289 million of the cash collateral under the securities lending agreement.

At December 31, 2000, Liberty had approximately $270 million in unused lines of credit under its bank credit facilities. The bank credit facilities of Liberty generally contain restrictive covenants which require, among other things, the maintenance of certain financial ratios, and include limitations on indebtedness, liens, encumbrances, acquisitions, dispositions, guarantees and dividends. Liberty was in compliance with its debt covenants at December 31, 2000. Additionally, Liberty pays fees ranging from .15% to .375% per annum on the average unborrowed portions of the total amounts available for borrowings under bank credit facilities.

The U.S. dollar equivalent of the annual maturities of Liberty's debt for each of the next five years are as follows: 2001: $1,094 million; 2002: $28 million; 2003: $132 million; 2004: $270 million and 2005: $347 million.

Based on quoted market prices, the fair value of Liberty's debt at December 31, 2000 is as follows (amounts in millions):

Senior notes of parent company	$ 737
Senior debentures of parent company	1,384
Senior exchangeable debentures of parent company	1,053
Senior notes of subsidiary	184

Liberty believes that the carrying amount of the remainder of its debt approximated its fair value at December 31, 2000.

(9) Income Taxes

Subsequent to the AT&T Merger, Liberty is included in the consolidated federal income tax return of AT&T and is a party to a tax sharing agreement with AT&T (the "AT&T Tax Sharing Agreement"). Liberty calculates its respective tax liability on a separate return basis. The income tax provision for Liberty is calculated based on the increase or decrease in the tax liability of the AT&T consolidated group resulting from the inclusion of those items in the consolidated tax return of AT&T which are attributable to Liberty.

Under the AT&T Tax Sharing Agreement, Liberty receives a cash payment from AT&T in periods when it generates taxable losses and such taxable losses are utilized by AT&T to reduce the consolidated income tax liability. This utilization of taxable losses is accounted for by Liberty as a current federal intercompany income tax benefit. To the extent such losses are not utilized by AT&T, such amounts are available to reduce federal taxable income generated by Liberty in future periods, similar to a net operating loss carryforward, and are accounted for as a deferred federal income tax benefit.

In periods when Liberty generates federal taxable income, AT&T has agreed to satisfy such tax liability on Liberty's behalf up to a certain amount. The reduction of such computed tax liabilities will be accounted for by Liberty as an addition to additional paid-in-capital. The total amount of future federal tax liabilities of Liberty which AT&T will satisfy under the AT&T Tax Sharing Agreement is approximately $830 million, which represents the tax effect of the net operating loss carryforward reflected in TCI's final federal income tax return, subject to IRS adjustments. Thereafter, Liberty is required to make cash payments to AT&T for federal tax liabilities of Liberty.

To the extent AT&T utilizes existing net operating losses of Liberty, such amounts will be accounted for by Liberty as a reduction of additional paid-in-capital. Net operating losses of Liberty with a tax effected carrying value of $38 million and $88 million were recorded as a reduction to additional paid-in-capital during the year ended December 31, 2000 and the ten months ended December 31, 1999.

Liberty will generally make cash payments to AT&T related to states where it generates taxable income and receive cash payments from AT&T in states where it generates taxable losses.

Prior to the AT&T Merger, Liberty was included in TCI's consolidated tax return and was a party to the TCI tax sharing agreements.

Liberty's obligation under the 1995 TCI Tax Sharing Agreement of approximately $138 million (subject to adjustment), which is included in "due to (from) related parties," shall be paid at the time, if ever, that Liberty deconsolidates from AT&T. Liberty's receivable under the 1997 TCI Tax Sharing Agreement of approximately $220 million was forgiven in the AT&T Tax Sharing Agreement and recorded as an adjustment to additional paid-in-capital by Liberty in connection with the AT&T Merger.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

Income tax benefit (expense) consists of:

	New Liberty	Old Liberty

	Year ended December 31, 2000	Ten months ended December 31, 1999	Two months ended February 28, 1999	Y en Decem 1
	amounts in millions			
Current:				
Federal	$ 132	75	1	
State and local	3	(3)	--	
	135	72	1	
Deferred:				
Federal	(1,904)	873	(168)	
State and local	(421)	152	(44)	
	(2,325)	1,025	(212)	
Income tax benefit (expense)	$ (2,190)	1,097	(211)	

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

	New Liberty		Old Liberty	
	Year ended December 31, 2000	Ten months ended December 31, 1999	Two months ended February 28, 1999	De
	amounts in millions			
Computed expected tax benefit (expense)	$ (1,666)	1,075	(49)	
Dividends excluded for income tax purposes	22	11	2	
Minority interest in equity of subsidiaries	22	32	--	
Amortization not deductible for income tax purposes	(187)	(122)	(4)	
State and local income taxes, net of federal income taxes	(267)	97	(29)	
Recognition of difference in income tax basis of investments in subsidiaries	(54)	--	(130)	
Change in valuation allowance	(50)	--	--	
Other, net	(10)	4	(1)	
	$ (2,190)	1,097	(211)	

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999 are presented below:

	December 31, 2000	December 31, 1999
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 295	43
Accrued stock compensation	247	749
Other future deductible amounts	--	61
Deferred tax assets	542	853
Less valuation allowance	131	50
Net deferred tax assets	411	803
Deferred tax liabilities:		
Investments in affiliates	11,229	13,912
Intangible assets	221	200
Other	30	44
Deferred tax liabilities	11,480	14,156
Net deferred tax liabilities	$ 11,069	13,353

At December 31, 2000, Liberty had net operating and capital loss carryforwards for income tax purposes aggregating approximately $800 million which, if not utilized to reduce taxable income in future periods, will expire as follows: 2004: $63 million; 2005: $42 million; 2006: $14 million; 2007: $27 million; 2008: $12 million; 2009: $23 million; 2010: $34 million; and beyond 2010: $585 million. These net operating losses are subject to certain rules limiting their usage.

(10) Stockholder's Equity

Preferred Stock

The Preferred Stock is issuable, from time to time, with such designations, preferences and relative participating, option or other special rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such Preferred Stock adopted by the Board.

Common Stock

The Class A Stock has one vote per share, and each of the Class B and Class C Stock has ten votes per share.

As of December 31, 2000, all of the issued and outstanding common stock of Liberty was held by AT&T.

Stock Issuances of Subsidiaries and Equity Affiliates

Certain consolidated subsidiaries and equity affiliates of Liberty have issued shares of common stock in connection with acquisitions and the exercise of employee stock options. In connection with the increase in the issuers' equity, net of the dilution of Liberty's ownership interest, that resulted from such stock issuances, Liberty recorded increases to additional paid-in-capital as follows:

	Year ended December 31, 2000	Ten months ended December 31, 1999
	amounts in millions	
Stock issuances by consolidated subsidiaries	$ 199	102
Stock issuances by equity affiliates (net of deferred income taxes of $88 million and $1 million, respectively)	163	2
	$ 362	104

Transactions with Officers and Directors

In December 2000, Liberty entered into an agreement to guaranty the repayment of a revolving line of credit extended by a financial institution to a director of Liberty with an aggregate available amount of up to $19.2 million. In consideration of this guaranty, the director has agreed to pay Liberty an annual fee of $96,000, payable quarterly, for each year of the two year term of the line of credit. To secure the director's repayment of any amount paid by Liberty under the guaranty, the director has granted to Liberty a security interest in all of his stock options and tandem or free-standing SARs with respect to shares of AT&T Liberty Media Group tracking stock and shares of AT&T's common stock. If the value of these securities fall below two times the amount of the loan Liberty has guaranteed, the director is required to pledge additional collateral to Liberty of sufficient value to maintain the two-times coverage ratio.

In November 2000, Liberty granted certain officers, a director of Liberty and a board member of a subsidiary an aggregate 4.0725% common stock interest in a subsidiary that owns a direct interest in Liberty Livewire. The common stock interest granted to these individuals had a value of approximately $400,000. The subsidiary also awarded the director of Liberty a deferred bonus in the initial total amount of approximately $3.4 million, which amount will decrease by an amount equal to any increase over the five-year period from the date of the award in the value of certain of the common shares granted to the director. Liberty and the individuals entered into a stockholders' agreement in which the individuals could require Liberty to repurchase, after five years, all or part of their common stock interest in exchange for AT&T Class A Liberty Media Group common stock at its then fair market value. In addition, Liberty has the right to repurchase, in exchange for AT&T Class A Liberty Media Group common stock, the common stock interests held by the individuals at fair market value at any time.

In October 2000, Liberty restructured its ownership interests in certain assets into a new consolidated subsidiary. Liberty then sold a preferred interest in such subsidiary to the Chairman of the Board of Directors in exchange for approximately 540,000 shares of LSAT Series A common stock, approximately 3.3 million shares of LSAT Series B common stock and cash consideration of approximately $88 million. No gain or loss was recognized due to the related party nature of such transaction.

In September 2000, certain officers of Liberty purchased a 6% common stock interest in a subsidiary for $1.3 million. Such subsidiary owns an indirect interest in an entity that holds certain of Liberty's investments in satellite and technology related assets. Liberty and the officers entered into a shareholders agreement in which the officers could require Liberty to purchase, after five years, all or part of their common stock interest in exchange for AT&T Class A Liberty Media Group common stock at the then fair market value. In addition, Liberty has the right to purchase, in exchange for AT&T Class A Liberty Media Group common stock, the common stock interests held by the officers at fair market value at any time.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

In August 2000, a subsidiary of Liberty sold shares of such subsidiary's Series A Convertible Participating Preferred Stock (the "Preferred Shares") to a director of Liberty, who is also the Chairman and Chief Executive Officer of such subsidiary, for a $21 million note. The Preferred Shares are convertible into 1.4 million shares of the subsidiary's common stock. The note is secured by the Preferred Shares or the proceeds from the sale of such shares and the director's personal obligations under such loan are limited. The note, which matures on August 1, 2005, may not be prepaid and interest on the note accrues at a rate of 7% per annum.

In May 2000, an officer of Liberty, certain officers of a subsidiary and another individual purchased an aggregate 20% common stock interest in a subsidiary for $800,000. This subsidiary owns a 10% interest in Jupiter Telecommunications Co., Inc. Liberty and the individuals entered into a shareholders agreement in which the individuals could require Liberty to purchase, after five years, all or part of their common stock interest in exchange for AT&T Class A Liberty Media Group common stock at its then fair market value. In addition, Liberty has the right to purchase, in exchange for AT&T Class A Liberty Media Group common stock, the common stock interests held by the officers at fair market value at any time. Liberty recognized $3 million of compensation expense related to changes in the market value of its contingent liability to reacquire the common stock interests held by these officers during the year ended December 31, 2000.

In connection with the AT&T Merger, Liberty paid two of its directors and one other individual, all three of whom were directors of TCI, an aggregate of $12 million for services rendered in connection with the AT&T Merger. Such amount is included in operating, selling, general and administrative expenses for the two months ended February 28, 1999 in the accompanying consolidated statements of operations and comprehensive earnings.

Liberty is party to a call agreement with certain shareholders of AT&T Class B Liberty Media Group common stock, including the Chairman of the Board of Directors, which grants Liberty a right to acquire all of the AT&T Class B Liberty Media Group common stock held by such shareholders in certain circumstances. The price of acquiring such shares is generally limited to the market price of the AT&T Class A Liberty Media Group common stock, plus a 10% premium. Liberty paid an aggregate $140 million to these shareholders for the rights under the call agreement in February 1998.

The Split Off Transaction discussed in note 15 will not affect the transactions with officers and directors described above, except that conditions of the transactions involving the issuance of AT&T Liberty Media Group tracking stock will be replaced with conditions involving the issuance of Series A common stock and Series B common stock.

Transactions with AT&T and Other Related Parties

Certain subsidiaries of Liberty produce and/or distribute programming and other services to cable distribution operators (including AT&T) and others pursuant to long term affiliation agreements. Charges to AT&T are based upon customary rates charged to others. Amounts included in revenue for services provided to AT&T were $243 million, $180 million, $43 million and $162 million for the twelve months ended December 31, 2000, the ten months ending December 31, 1999, the two month period ending February 28, 1999 and the year ended December 31, 1998, respectively.

AT&T allocates certain corporate general and administrative costs to Liberty pursuant to an intergroup agreement. Management believes such allocation methods are reasonable and materially approximate the amount that Liberty would have incurred on a stand-alone basis. In addition, there are arrangements between subsidiaries of Liberty and AT&T and its other subsidiaries for satellite transponder services, marketing support, programming, and hosting services. These expenses aggregated $37 million, $24 million, $6 million and $43 million during

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

the year ended December 31, 2000, the ten months ended December 31, 1999, the two months ended February 28, 1999 and the year ended December 31, 1998, respectively.

On April 8, 1999, Liberty redeemed all of its outstanding 4-1/2% convertible subordinated debentures. The debentures were convertible into shares of AT&T Liberty Media Group Class A common stock at a conversion price of $11.77, or 84.96 shares per $1,000 principal amount. Certain holders of the debentures had exercised their rights to convert their debentures and 29.2 million shares of AT&T Liberty Media Group tracking stock were issued to such holders. In connection with such issuance of AT&T Liberty Media Group tracking stock, Liberty recorded an increase to additional paid-in-capital of $354 million.

During September 1998, TCI assigned its obligation under an option contract to Liberty. As a result of such assignment, Liberty recorded a $16 million reduction to the intercompany amount due to TCI and a corresponding increase to additional paid-in-capital.

Due to (from) Related Parties

The components of "Due to (from) related parties" are as follows:

	December 31, 2000	December 31, 1999
	amounts in millions	
Note receivable from related party	$ (476)	--
Intercompany account	334	27
	$ (142)	27

During 2000, Liberty transferred its interest in ICG Communications, Inc. ("ICG") to an attributed subsidiary of Liberty Media Group that is not a subsidiary of the Company for $485 million which was equal to Liberty's carrying value of ICG. No gain or loss was recognized due to the related party nature of such transaction. In exchange for its interest in ICG, Liberty received a note receivable, which is due and payable in 2010. During the fourth quarter of 2000, Liberty received a $9 million payment on the note from the related party.

The non-interest bearing intercompany account with AT&T includes income tax allocations that are to be settled at some future date. All other amounts included in the intercompany account are to be settled within thirty days following notification.

(11) Stock Options and Stock Appreciation Rights

Liberty

Certain officers and employees of Liberty hold options with tandem stock appreciation rights ("SARs") to acquire AT&T common stock and AT&T Class A and/or B Liberty Media Group common stock as well as restricted stock awards of AT&T common stock and AT&T Class A Liberty Media Group common stock. The following descriptions of stock options and/or SARs have been adjusted to reflect the AT&T Merger and any subsequent stock splits.

The following table presents the number and weighted average exercise price ("WAEP") of certain options in tandem with SARs to purchase AT&T common stock and AT&T Liberty Media Group Class A and Class B tracking stock granted to certain officers and other key employees of the Company.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

	AT&T common stock	WAEP	AT&T Liberty Media Group tracking stock
	amounts in thousands, except for W		
Outstanding at January 1, 1998	3,628	$ 10.38	54,380
Granted	137	22.10	33,362
Exercised	(1,549)	8.90	(9,538)
Canceled	(27)	12.82	(46)
Outstanding at December 31, 1998	2,189	12.06	78,158
Granted	--	--	1,244
Exercised	(316)	11.65	(7,510)
Adjustment for transfer of employees	(1,140)	8.14	(1,158)
Outstanding at December 31, 1999	733	13.23	70,734
Granted	--	--	2,341
Exercised	(55)	12.53	(7,214)
Canceled	--	--	(479)
Options issued in mergers	--	--	12,134
Outstanding at December 31, 2000	678	13.29	77,516
Exercisable at December 31, 2000	614		52,856
Vesting period	5 yrs		5yrs

Liberty Digital, Inc. ("Liberty Digital")

Deferred Compensation and Stock Option Plan. On September 8, 1999, the Deferred Compensation and Stock Appreciation Rights Plan was adopted for key executives. This plan is comprised of a deferred compensation component and SARs grants. The deferred compensation component provides participants with the right to receive an aggregate of nine and one half percent of the appreciation in the Liberty Digital Series A common stock market price over $2.46 subject to a maximum amount of $19.125. The SARs provide participants with the appreciation in the market price of the Liberty Digital Series A common stock above the maximum amount payable under the deferred compensation component. Obligations to the executives under both the deferred compensation and SAR elements of this plan are accounted for as variable award plans.

There are 19,295,193 shares subject to this plan all of which were granted in 1999 at an effective exercise price of $2.46 and a weighted average remaining life of 3 years at year end. The deferred compensation and SARs components vest 20% annually beginning with the first vesting date of December 15, 1999. Fully vested unexercised options total 3,046,188 at year-end. During the year ended December 31, 1999, 3,859,038 options were exercised, 3,251,401 options were cancelled and no options expired during 2000. This plan terminates on December 15, 2003.

Starz Encore Group

Starz Encore Group Phantom Stock Appreciation Rights Plan. During 2000, 1999 and 1998 Starz Encore Group granted Phantom Stock Appreciation Rights (PSARS) to certain of its officers under this plan. PSARS granted under the plan generally vest over a five year period. Compensation under the PSARS is computed based upon a formula derived from the appraised fair value of the net assets of Starz Encore Group. All amounts earned under the plan are payable in cash.

Other

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

(12) Other Comprehensive Earnings

Accumulated other comprehensive earnings included in Liberty's consolidated balance sheets and consolidated statements of stockholder's equity reflect the aggregate of foreign currency translation adjustments and unrealized holding gains and losses on securities classified as available-for-sale. The change in the components of accumulated other comprehensive earnings, net of taxes, is summarized as follows:

	Foreign currency translation adjustments	Unrealized gains on securities
	amounts in millions	
Balance at January 1, 1998	$ 3	764
Other comprehensive earnings	2	2,417
Balance at December 31, 1998	5	3,181
Other comprehensive earnings (loss)	(15)	885
Balance at February 28, 1999	$ (10)	4,066
Balance at March 1, 1999	$ --	--
Other comprehensive earnings	60	6,458
Balance at December 31, 1999	60	6,458
Other comprehensive loss	(202)	(6,713)
Balance at December 31, 2000	$ (142)	(255)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

The components of other comprehensive earnings are reflected in Liberty's consolidated statements of operations and comprehensive earnings, net of taxes and reclassification adjustments for gains realized in net earnings (loss). The following table summarizes the tax effects and reclassification adjustments related to each component of other comprehensive earnings.

	Before-tax amount	Tax (expense) benefit
	amounts in mil	

Year ended December 31, 2000:		
Foreign currency translation adjustments	$ (334)	13
Unrealized gains on securities:		
Unrealized holding losses arising during period	(10,055)	3,97
Less reclassification adjustment for gains realized in net loss	(1,050)	41
Net unrealized losses	(11,105)	4,39
Other comprehensive loss	$ (11,439)	4,52
Ten months ended December 31, 1999:		
Foreign currency translation adjustments	$ 99	(3
Unrealized gains on securities:		
Unrealized holding gains arising during period	10,671	(4,22
Less reclassification adjustment for losses realized in net loss	12	(
Net unrealized gains	10,683	(4,22
Other comprehensive earnings	$ 10,782	(4,26
Two months ended February 28, 1999:		
Foreign currency translation adjustments	$ (25)	1
Unrealized gains on securities:		
Unrealized holding gains arising during period	1,464	(57
Other comprehensive earnings	$ 1,439	(56
Year ended December 31, 1998:		
Foreign currency translation adjustments	$ 3	(
Unrealized gains on securities:		
Unrealized holding gains arising during period	3,998	(1,58
Other comprehensive earnings	$ 4,001	(1,58

(13) Commitments and Contingencies

Starz Encore Group, a wholly owned subsidiary of Liberty, provides premium programming distributed by cable, direct satellite, TVRO and other distributors throughout the United States. Starz Encore Group is obligated to pay fees for the rights to exhibit certain films that are released by various producers through 2017 (the "Film Licensing Obligations"). Based on customer levels at December 31, 2000, these agreements require minimum payments aggregating approximately $1.3 billion. The aggregate amount of the Film Licensing Obligations under these license agreements 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. Nevertheless, required aggregate payments under the Film Licensing Obligations could prove to be significant.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

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Liberty has guaranteed various loans, notes payable, letters of credit and other obligations (the "Guaranteed Obligations") of certain affiliates. At December 31, 2000, the Guaranteed Obligations aggregated approximately $659 million. Currently, Liberty is not certain of the likelihood of being required to perform under such guarantees.

Liberty leases business offices, has entered into pole rental and transponder lease agreements and uses certain equipment under lease arrangements. Rental expense under such arrangements amounts to $50 million, $30 million, $9 million and $27 million for the year ended December 31, 2000, for the ten months ended December 31, 1999, the two months ended February 28, 1999 and the year ended December 31, 1998, respectively.

A summary of future minimum lease payments under noncancelable operating leases as of December 31, 2000 follows (amounts in millions):

Years ending December 31:		
2001	$	46
2002		41
2003		37
2004		32
2005		23
Thereafter		61

It is expected that in the normal course of business, leases that expire generally will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will not be less than the amount shown for 2000.

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

(14) Information about Liberty's Operating Segments

Liberty is a holding company with a variety of subsidiaries and investments operating in the media, communications and entertainment industries. Each of these businesses is separately managed. Liberty identifies its reportable segments as those consolidated subsidiaries that represent 10% or more of its combined revenue and those equity method affiliates whose share of earnings or losses represent 10% or more of its pre-tax earnings or loss. Subsidiaries and affiliates not meeting this threshold are aggregated together for segment reporting purposes.

For the year ended December 31, 2000, Liberty had four operating segments: Starz Encore Group, Liberty Livewire, On Command Corporation ("On Command") and Other. Starz Encore Group provides premium programming distributed by cable, direct-to-home satellite and other distribution media throughout the United States and is wholly owned and consolidated by Liberty. 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 and is majority owned and consolidated by Liberty. On Command provides in-room on-demand video entertainment and information services to the domestic lodging industry and is majority owned and consolidated by Liberty. Other includes Liberty's non-consolidated investments, corporate and other consolidated businesses not representing separately reportable segments.

The accounting policies of the segments that are also consolidated subsidiaries are the same as those described in the summary of significant accounting policies. Liberty evaluates performance

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

based on the measures of revenue and operating cash flow (as defined by Liberty), appreciation in stock price along with other non-financial measures such as average prime time rating, prime time audience delivery, subscriber growth and penetration, as appropriate. Liberty believes operating cash flow is a widely used financial indicator of companies similar to Liberty and its affiliates, which should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with generally accepted accounting principles. Liberty generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

Liberty's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technology and marketing strategies.

Liberty utilizes the following financial information for purposes of making decisions about allocating resources to a segment and assessing a segment's performance:

	Starz Encore Group	Liberty Livewire	On Command	Other	T
		amounts in millions			
Performance measures:					

Year ended December 31, 2000				
Revenue	$ 733	295	200	298
Operating cash flow	235	44	49	12
Ten months ended December 31, 1999				
Revenue	539	--	--	190
Operating cash flow	124	--	--	9
Balance Sheet Information:				
As of December 31, 2000				
Total assets	2,754	1,141	439	49,842
Investments in affiliates	155	8	2	20,214
As of December 31, 1999				
Total assets	2,636	--	--	56,014
Investments in affiliates	--	--	--	15,922
Performance Measures:				
Two months ended February 28, 1999				
Revenue	$ 101	--	--	134
Operating cash flow	41	--	--	6
Year ended December 31, 1998				
Revenue	541	--	--	818
Operating cash flow	96	--	--	120

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

The following table provides a reconciliation of segment operating cash flow to earnings before income taxes:

	New Liberty		Old Libert
	Year ended December 31, 2000	Ten months ended December 31, 1999	Two months ended February 28, 1999
	amounts in millions		
Segment operating cash flow	$ 340	133	47
Stock compensation	950	(1,785)	(183)
Depreciation and amortization	(853)	(562)	(22)

Interest expense, including amounts to related parties	(246)	(288)	(26)	
Share of losses of affiliates	(1,731)	(904)	(66)	
Gains on dispositions, net	7,339	4	14	
Impairment of investments	(1,476)	--	--	
Other, net	436	330	377	
Earnings (loss) before income taxes	$ 4,759	(3,072)	141	

(15) Proposed Split Off Transaction

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. Subsequent to December 31, 2000, AT&T initiated a process for effecting the split off of Liberty Media Corporation from AT&T by means of a redemption of AT&T Liberty Media Group tracking stock (the "Split Off Transaction"). Prior to the Split Off Transaction, Liberty will increase its authorized capital stock, and the Liberty Class A and Class B Common Stock will be reclassified as Series A Liberty Media Corporation common stock ("Series A common stock") and the Class C Common Stock will be reclassified as Series B Liberty Media Corporation common stock ("Series B common stock"). In the Split Off Transaction, each share of Class A and Class B Liberty Media Group Common Stock will be exchanged for a like share of Series A common stock and Series B common stock, respectively. Upon completion of the Split Off Transaction, Liberty Media Corporation will no longer be a subsidiary of AT&T and no shares of AT&T Liberty Media Group tracking stock will remain outstanding. The Split Off Transaction will be accounted for at historical cost. There can be no assurance that the Split Off will be effected.

Immediately prior to the Split Off Transaction, AT&T will contribute to Liberty Media Corporation assets that are currently attributed to the Liberty Media Group but not held by Liberty Media Corporation (the "Contributed Assets"). These assets include (i) preferred stock and common stock interests in a subsidiary of IDT Corporation, a multinational telecommunications services provider; and (ii) an approximate 8% indirect common equity interest in Liberty Digital, a consolidated subsidiary of Liberty. The contributions will be accounted for in a manner similar to a pooling of interests and, accordingly, the financial statements of Liberty Media Corporation for periods prior to contributions will be restated to include the financial position and results of operations of the Contributed Assets once this transaction is completed.

In connection with the Split Off Transaction, 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 our obligations under the AT&T 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 the 1995 TCI Tax Sharing Agreement. The expected

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

net payment from AT&T is approximately $692 million and will be accounted for as an increase to additional paid-in-capital immediately prior to the proposed Split Off. In addition, certain deferred intercompany gains will be includible in taxable income as a result of the Split Off Transaction and the resulting tax liability of approximately $122 million will be an obligation of Liberty.

(16) Quarterly Financial Information (Unaudited)

	1st Quarter	2nd Quarter
	amounts in m	
2000:		
Revenue	$ 235	382
Operating income (loss)	$ (83)	67
Net earnings (loss)	$ 977	318

	Old Liberty	New Liber	
	Two months ended February 28	One month ended March 31,	2nd Quarter
	amounts in million		
1999:			
Revenue	$ 235	71	221
Operating income (loss)	$ (158)	3	(636)
Net loss	$ (70)	(58)	(543)