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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties.

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

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

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

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

On Command leases its corporate headquarters in Denver, Colorado. It also leases 120,000 square feet of light manufacturing and storage space in Denver, Colorado and 42,000 square feet of office space in San Jose, California. On Command also has a number of small leased facilities in the United States, Canada and Mexico.

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

Item 3. Legal Proceedings.

Klesch & Company Limited v. Liberty Media Corporation, John C. Malone and Robert R. Bennett. On September 4, 2001, we entered into agreements with Deutsche Telekom AG pursuant to which we would purchase its entire interest in six of nine regional cable television companies in Germany. In February 2002, we failed to receive regulatory approval for our proposed acquisition. On July 27, 2001, Klesch & Company Limited initiated a lawsuit against us, our chairman, John C. Malone, and our former chief executive officer, Robert R. Bennett, in the United States District Court for the District of Colorado alleging, among other things, breach of fiduciary duty, fraud and breach of contract in connection with actions alleged to have been taken by us with respect to what then was a proposed transaction with Deutsche Telekom. Klesch sought damages in an unspecified amount in that action, which was the subject of a jury trial that began on August 30, 2004. On September 28, 2004, the jury returned a verdict in our favor on all of the legal claims asserted by the plaintiff. The jury also rejected the plaintiff's claims that Messrs. Malone and Bennett had committed fraud in their dealings with the plaintiff. On March 30, 2005, the court entered a judgment in accordance with the jury's verdict, and in addition ruled in our favor on various equitable claims asserted by the plaintiffs. The plaintiff has appealed the judgment to the United States Court of Appeals for the Tenth Circuit. Both sides have submitted briefs, and oral arguments were held on November 15, 2006. To date, we have not received notice of any decision by the Court.

Dr. Leo Kirch, Individually and as assignee, KGL Pool GmBH, and International Television Trading Corp. v. Liberty Media Corporation, John Malone, Deutsche Bank, AG, and Dr. Rolf-Ernst Breuer. Dr. Kirch was the primary owner of KirchGroup, a German cable television and media conglomerate. On September 4, 2001, we entered into agreements with Deutsche Telekom AG pursuant to which we would purchase its entire interest in six of nine regional cable television companies in Germany. In February 2002, we failed to receive regulatory approval for our proposed acquisition and the transactions with Deutsche Telekom were never consummated. On January 14, 2004, Dr. Kirch, KGL Pool GBH, and International Television Trading Corp. added our company, and our chairman, John C. Malone, to a lawsuit they had initiated against Deutsche Bank and Dr. Breuer on February 3, 2003. In that lawsuit, which was filed in the United States District Court for the Southern District of New York, the plaintiffs' claims against us included, among other things, interference with contract, and interference with prospective economic advantage arising from an alleged conspiracy among our company, Dr. Malone, Deutsche Bank and Dr. Breuer pursuant to which we allegedly were involved in effecting transactions that led to the collapse of the KirchGroup's control of the German cable market in an effort to facilitate our agreements with Deutsche Telekom. Dr. Kirch, KGL Pool and International Television sought damages in an unspecified amount. We and Dr. Malone filed a motion to dismiss the lawsuit for failure to state a claim upon which relief can be granted. That motion, as well as the other defendants' motion to dismiss on the same grounds, was granted by the court on September 24, 2004. The plaintiffs appealed the court's dismissal of the case to the United States Court of Appeals for the Second Circuit. On appeal, the case was remanded to the trial court for a determination on the issue of whether the case should be dismissed on grounds of *forum non conveniens*. On November 8, 2006, the trial court ruled on this issue and dismissed the suit on such grounds. To date, we have not received notice of any further actions taken by the plaintiffs with respect to the claims made in this proceeding.

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

None.

PART II.

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

Market Information

We issued our tracking stocks, Liberty Capital Series A and Series B common stock (LCAPA and LCAPB) and Liberty Interactive Series A and Series B common stock (LINTA and LINTB), on May 10, 2006. Holders of our predecessor's common stock received .25 of a share of LINTA and .05 of a share of LCAPA in exchange for each share of Series A common stock held and .25 of a share of LINTB and .05 of a share of LCAPB in exchange for each share of Series B common stock held. Each series of our tracking stock trades on the Nasdaq National Market. Prior to May 10, 2006, our two series of common stock, Series A and Series B, traded on the New York Stock Exchange under the symbols L and LMC.B, respectively. The following table sets forth the range of high and low sales prices of shares of our common stock for the years ended December 31, 2006 and 2005.

	Series A (L)		Series B (LMC.B)	
	High	**Low**	**High**	**Low**
2005				
First quarter	$10.93	9.97	11.60	10.30
Second quarter	$10.64	10.01	11.06	10.20
Third quarter through July 20, 2005*	$10.28	9.89	10.75	10.00
July 21 through September 30, 2005*	$ 8.90	7.98	10.15	8.12
Fourth quarter	$ 8.18	7.59	8.56	7.55
2006				
First quarter	$ 8.44	7.73	8.50	7.80
Second quarter through May 9, 2006	$ 8.76	8.20	8.90	8.20

	Liberty Capital			
	Series A (LCAPA)		Series B (LCAPB)	
	High	**Low**	**High**	**Low**
2006				
Second quarter—May 10, 2006 through June 30, 2006	$83.95	77.00	87.99	79.26
Third quarter	$87.02	80.01	87.25	80.73
Fourth quarter	$98.80	83.32	99.46	84.34

	Liberty Interactive			
	Series A (LINTA)		Series B (LINTB)	
	High	**Low**	**High**	**Low**
2006				
Second quarter—May 10, 2006 through June 30, 2006	$20.25	16.28	20.09	15.98
Third quarter	$20.60	15.84	20.50	16.00
Fourth quarter	$23.29	19.85	23.13	19.61

* Our spin off of DHC was completed on July 21, 2005.

Holders

As of January 31, 2007, there were approximately 68,000 and less than 1,000 beneficial holders of our Liberty Capital Series A and Series B common stock, respectively, and approximately 74,000 and less than 1,000 beneficial holders of our Liberty Interactive Series A and Series B common stock, respectively.

Dividends

We have not paid any cash dividends on our common stock, and we have no present intention of so doing. Payment of cash dividends, if any, in the future will be determined by our Board of Directors in light of our earnings, financial condition and other relevant considerations.

Securities Authorized for Issuance Under Equity Compensation Plans

Information required by this item is incorporated by reference to our definitive proxy statement for our 2007 Annual Meeting of shareholders.

Purchases of Equity Securities by the Issuer

	Liberty Interactive Series A Common Stock			
Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be purchased Under the Plans or Programs(1)
October 2006	5,129,246	$ 21.22	5,129,246	$ 160.5 million
November 2006	3,443,499	$ 22.51	3,443,499	$ 1,082.9 million
December 2006	1,578,700	$ 22.66	1,578,700	$ 1,047.2 million
Total	10,151,445		10,151,445	

(1) Our program to repurchase shares of Liberty Interactive common stock was approved by our board of directors and disclosed in our 2006 Annual Proxy dated April 7, 2006. In November 2006, our board of directors increased the aggregate amount of Liberty Interactive common stock that can be repurchased from $1 billion to $2 billion. We may alter or terminate the program at any time.

Item 6. Selected Financial Data.

The following tables present selected historical information relating to our financial condition and results of operations for the past five years. The following data should be read in conjunction with our consolidated financial statements.

	December 31,				
	2006	2005	2004	2003(2)	2002
	(amounts in millions)				
Summary Balance Sheet Data(1):					
Investments in available-for-sale securities and other cost investments	$21,622	18,489	21,834	19,544	14,156
Investment in affiliates	$ 1,842	1,908	784	745	3,420
Assets of discontinued operations	$ 512	516	6,258	9,741	8,985
Total assets	$47,638	41,965	50,181	54,225	40,324
Long-term debt(3)	$ 8,909	6,370	8,566	9,417	3,646
Stockholders' equity	$21,633	19,120	24,586	28,842	24,682

	Years ended December 31,				
	2006	2005	2004	2003(2)	2002
	(amounts in millions, except per share amounts)				
Summary Statement of Operations Data(1):					
Revenue	$8,613	7,646	6,743	2,934	1,010
Operating income (loss)(4)	$1,021	944	788	(841)	189
Realized and unrealized gains (losses) on financial instruments, net	$ (279)	257	(1,284)	(661)	2,127
Gains (losses) on dispositions, net	$ 607	(361)	1,411	1,128	(526)
Nontemporary declines in fair value of investments	$ (4)	(449)	(129)	(22)	(5,793)
Earnings (loss) from continuing operations(4)	$ 709	(43)	105	(1,144)	(2,783)
Basic and diluted earnings (loss) from continuing operations per common share(5):					
Liberty common stock	$ .07	(.02)	.04	(.42)	(1.07)
Liberty Capital common stock	$ .24	—	—	—	—
Liberty Interactive common stock	$ .73	—	—	—	—

(1) In the fourth quarter of 2006, we executed agreements to sell our interests in OpenTV Corp. ("OPTV") and Ascent Entertainment Group ("AEG"), which is the parent company of On Command Corporation, in separate transactions to unrelated third parties. Our consolidated financial statements and selected financial information have been prepared to reflect OPTV and AEG as discontinued operations. Accordingly, the assets and liabilities, and revenue, costs and expenses of OPTV and AEG have been excluded from the respective captions in our consolidated financial statements and selected financial information and have been reported under the heading of discontinued operations. See note 5 to our consolidated financial statements for additional information regarding OPTV and AEG.

(2) On September 17, 2003, we completed our acquisition of Comcast Corporation's approximate 56% ownership in QVC, Inc. for approximately $7.9 billion, comprised of cash, floating rate senior notes and shares of our Series A common stock. When combined with our previous ownership of approximately 42% of QVC, we owned 98% of QVC upon consummation of the transaction, which is deemed to have occurred on September 1, 2003, and we have consolidated QVC's financial position and results of operations since that date.

(3) Excludes the call option portion of our exchangeable debentures. See note 9 to our consolidated financial statements.

(4) Our 2003 operating loss and loss from continuing operations include a $1,352 million goodwill impairment charge related to our wholly-owned subsidiary, Starz Entertainment, LLC (formerly known as Starz Entertainment Group LLC).

(5) Basic and diluted earnings per share have been calculated for Liberty Capital and Liberty Interactive common stock for the period from May 10, 2006 to December 31, 2006. EPS has been calculated for Liberty common stock for all periods prior to May 10, 2006.

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.

Overview

We are a holding company that owns controlling and non-controlling interests in a broad range of video and on-line commerce, media, communications and entertainment companies. Our more significant operating subsidiaries are QVC, Inc. and Starz Entertainment, LLC. QVC markets and sells a wide variety of consumer products in the United States and several foreign countries, primarily by means of televised shopping programs on the QVC networks and via the Internet through its domestic and international websites. Starz Entertainment provides premium programming distributed by cable operators, direct-to-home satellite providers, other distributors and via the Internet throughout the United States.

In 2006, we began implementing a strategy to convert passive investments into operating businesses. We exchanged our cost investment in IDT Corporation for IDT's subsidiary IDT Entertainment, and we signed an agreement with News Corporation to exchange our investment in News Corporation for a News Corporation subsidiary which would own News Corporations' 38.5% interest in The DirecTV Group, three regional sports television networks and cash. In addition, we acquired controlling interests in Provide Commerce, Inc., FUN Technologies, Inc. and BuySeasons, Inc.

Our "Corporate and Other" segment includes our other consolidated subsidiaries and corporate expenses. Our other consolidated subsidiaries include Provide Commerce, Inc., Starz Media, LLC, FUN Technologies, Inc., TruePosition, Inc. and BuySeasons, Inc. Provide, which we acquired in February 2006, operates an e-commerce marketplace of websites for perishable goods, including flowers, gourmet foods, fruits and desserts. Starz Media, which we acquired in the third quarter of 2006, is focused on developing, acquiring, producing and distributing live-action, computer-generated and traditional television animated productions for the home video, film, broadcast and direct-to-consumer markets. FUN, in which we acquired a 55% common stock interest in March 2006, operates websites that offer casual gaming, sports information and fantasy sports services. TruePosition provides equipment and technology that deliver location-based services to wireless users. BuySeasons, which we acquired in August 2006, operates BuyCostumes.com, an on-line retailer of costumes, accessories, décor and party supplies.

In addition to the foregoing businesses, we hold an approximate 21% interest in Expedia, Inc., which we account for as an equity method investment, and we continue to maintain significant investments and related derivative positions in public companies such as News Corporation, IAC/InterActiveCorp, Time Warner Inc. and Sprint Nextel Corporation, which are accounted for at their respective fair market value and are included in corporate and other.

Tracking Stocks

On May 9, 2006, we completed a restructuring pursuant to which we were organized as a new holding company, and we became the new publicly traded parent company of Liberty Media LLC, which was formerly known as Liberty Media Corporation, and which we refer to as "Old Liberty". As a result of the restructuring, all of the Old Liberty outstanding common stock was exchanged for our two new tracking stocks, Liberty Interactive common stock and Liberty Capital common stock. Each tracking stock issued in the restructuring is intended to track and reflect the economic performance of one of two newly designated groups, the Interactive Group and the Capital Group, respectively.

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

The term "Interactive Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which we have attributed to it. The assets and businesses we have attributed to the Interactive Group are those engaged in video and on-line commerce, and include our subsidiaries QVC, Provide and BuySeasons and our interests in Expedia and IAC/InterActiveCorp. The Interactive Group will also include such other businesses that our board of directors may in the future determine to attribute to the Interactive Group, including such other businesses as we may acquire for the Interactive Group. In addition, we have attributed $3,108 million principal amount (as of December 31, 2006) of our existing publicly-traded debt to the Interactive Group.

The term "Capital Group" also does not represent a separate legal entity, rather it represents all of our businesses, assets and liabilities other than those which have been attributed to the Interactive Group. The assets and businesses attributed to the Capital Group include our subsidiaries Starz Entertainment, Starz Media, FUN and TruePosition, our equity affiliates GSN, LLC and WildBlue Communications, Inc. and our interests in News Corporation, Time Warner Inc. and Sprint Nextel Corporation. The Capital Group will also include such other businesses that our board of directors may in the future determine to attribute to the Capital Group, including such other businesses as we may acquire for the Capital Group. In addition, we have attributed $4,580 million principal amount (as of December 31, 2006) of our existing publicly-traded debt to the Capital Group.

See Exhibit 99.1 to this Annual Report on Form 10-K for unaudited attributed financial information for our tracking stock groups.

Discontinued Operations

In the fourth quarter of 2006, we committed to two separate transactions pursuant to which we intend to sell our interests in OpenTV Corp and Ascent Entertainment Group ("AEG") to unrelated third parties. The agreement to sell OpenTV was executed in October 2006 and provided for us to sell all of our controlling interest in OpenTV for approximately $132 million in cash. Pursuant to an agreement with OpenTV, we would pay OpenTV up to approximately $20 million of the sales proceeds on the first anniversary of the closing, subject to the satisfaction of certain conditions. The transaction was completed on January 16, 2007. The agreement to sell AEG, of which the primary asset is 100% of the common stock of On Command Corporation, was executed in December 2006 and provides that if the transaction is completed, we would sell our interest in AEG for $332 million in cash and 2.05 million shares of common stock of the buyer valued at approximately $50 million. The transaction, which is subject to regulatory approval and customary closing conditions, is expected to close in mid-2007.

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

On July 21, 2005, we completed the spin off of our wholly-owned subsidiary, Discovery Holding Company ("DHC"), to our shareholders. At the time of the spin off, DHC's assets were comprised of our 100% ownership interest in Ascent Media Group, our 50% ownership interest in Discovery Communications, Inc. and $200 million in cash. The spin off is intended to qualify as a tax-free spin off. We recognized no gain or loss in connection with the spin off due to the pro rata nature of the distribution.

On June 7, 2004, we completed the spin off of our wholly-owned subsidiary, Liberty Media International, Inc. ("LMI"), to our shareholders. Substantially all of the assets and businesses of LMI were attributed to our International Group segment. The spin off is intended to qualify as a tax-free spin off. For accounting purposes, the spin off is deemed to have occurred on June 1, 2004, and we recognized no gain or loss in connection with the spin off due to the pro rata nature of the distribution.

During the fourth quarter of 2004, the executive committee of our board of directors approved a plan to dispose of our approximate 56% ownership interest in Maxide Acquisition, Inc. (d/b/a DMX Music, "DMX"). On February 14, 2005, DMX commenced proceedings under Chapter 11 of the United States Bankruptcy Code. On May 16, 2005, The Bankruptcy Court approved the sale of substantially all of the operating assets of DMX to an independent third party. As a result of the DMX bankruptcy filing, we deconsolidated DMX effective December 31, 2004.

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

Strategies and Challenges of Business Units

QVC has identified improved domestic growth and continued international growth as key areas of focus in 2007. QVC's steps to achieving these goals will include (1) continued domestic and international efforts to increase the number of customers who have access to and use its service, (2) continued expansion of brand selection and available domestic products and (3) continued development and enhancement of the QVC websites to drive Internet commerce. The key challenges to achieving these goals in both the U.S. and international markets are (1) increased competition from other home shopping and Internet retailers, (2) advancements in technology, such as video on demand and personal video recorders, which may alter TV viewing habits, (3) maintaining favorable channel positioning as digital TV penetration increases and (4) successful management transition.

Starz Entertainment views (1) negotiating new affiliation agreements with key distributors and (2) increasing subscribers to its on-demand and more traditional cable and satellite delivered services, as well as its Internet delivered services, as key initiatives in 2007. Starz Entertainment faces several key obstacles in its attempt to meet these goals, including: (1) cable operators' promotion of bundled service offerings rather than premium video services; (2) the impact on viewer habits of new technologies such as video on demand and personal video recorders; (3) continued consolidation in the broadband and satellite distribution industries; and (4) an increasing number of alternative movie and programming sources.

Results of Operations

General. We provide in the tables below information regarding our Consolidated Operating Results and Other Income and Expense, as well as information regarding the contribution to those items of our reportable segments categorized by the tracking stock group to which those segments are attributed. The "corporate and other" category for each tracking stock group consists of those assets within the category which are attributed to such tracking stock group. For a more detailed discussion and analysis of the financial results of the principal reporting segments of each tracking stock group, see "Interactive Group" and "Capital Group" below.

Consolidated Operating Results

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Revenue			
Interactive Group			
QVC	$7,074	6,501	5,687
Corporate and Other	252	—	—
	7,326	6,501	5,687
Capital Group			
Starz Entertainment	1,033	1,004	963
Corporate and Other	254	141	93
	1,287	1,145	1,056
Consolidated Liberty	$8,613	7,646	6,743
Operating Cash Flow (Deficit)			
Interactive Group			
QVC	$1,656	1,422	1,230
Corporate and Other	24	(5)	(6)
	1,680	1,417	1,224
Capital Group			
Starz Entertainment	186	171	239
Corporate and Other	(83)	(47)	(72)
	103	124	167
Consolidated Liberty	$1,783	1,541	1,391
Operating Income (Loss)			
Interactive Group			
QVC	$1,130	921	760
Corporate and Other	—	(5)	(12)
	1,130	916	748
Capital Group			
Starz Entertainment	163	105	148
Corporate and Other	(272)	(77)	(108)
	(109)	28	40
Consolidated Liberty	$1,021	944	788

Revenue. Our consolidated revenue increased 12.6% in 2006 and 13.4% in 2005, as compared to the corresponding prior year. The 2006 increase is due primarily to an 8.8% or $573 million increase at QVC and our 2006 acquisitions of Provide ($220 million), Starz Media ($86 million), FUN ($42 million) and BuySeasons ($32 million). The 2005 increase was driven primarily by growth of 14.3% at QVC and growth of 4.3% at Starz Entertainment. In addition, TruePosition's revenue increased $77 million as it continued to increase delivery and acceptance of its equipment in Cingular Wireless's markets. See Management's Discussion and Analysis for the Interactive Group and the Capital Group below for a more complete discussion of QVC's and Starz Entertainment's results of operations.

In November 2006, TruePosition signed an amendment to its existing services contract with Cingular Wireless that requires TruePosition to develop and deliver additional software features. Because vendor specific objective evidence related to the value of these additional features does not exist, TruePosition is required to defer revenue recognition until all of the features have been delivered. TruePosition estimates that these features will be delivered in the first quarter of 2008. Accordingly, TruePosition will not recognize any revenue under this contract until 2008. TruePosition recognized approximately $105 million of revenue under this contract in 2006 prior to signing the amendment.

Operating Cash Flow. We define Operating Cash Flow as revenue less cost of sales, operating expenses and selling, general and administrative ("SG&A") expenses (excluding stock compensation). Our chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including each business's ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock compensation, litigation settlements and impairments of long-lived assets that are included in the measurement of operating income pursuant to generally accepted accounting principles ("GAAP"). Accordingly, Operating Cash Flow should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See note 18 to the accompanying consolidated financial statements for a reconciliation of Operating Cash Flow to Earnings (Loss) From Continuing Operations Before Income Taxes and Minority Interest.

Consolidated Operating Cash Flow increased $242 million or 15.7% and $150 million or 10.8% in 2006 and 2005, respectively, as compared to the corresponding prior year. The 2006 increase is due to a $234 million or 16.5% increase at QVC and a $15 million or 8.8% increase at Starz Entertainment. Operating cash flow for Provide of $24 million and BuySeasons of $6 million were offset by operating cash flow deficits for Starz Media of $24 million and FUN of $11 million. The 2005 increase is due to a $192 million increase for QVC and a $30 million improvement for TruePosition, partially offset by a $68 million decrease for Starz Entertainment.

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

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123R (revised 2004), *"Share-Based Payment"* ("Statement 123R"). Statement 123R requires that we amortize the grant date fair value of our stock option and SAR awards that qualify as equity awards as stock compensation expense over the vesting period of such awards. Statement 123R also requires that we record our liability awards at fair value each reporting period and that the change in fair value be reflected as stock compensation expense in our consolidated statement of operations. Prior to adoption of Statement 123R, the amount of expense associated with stock-based compensation was generally based on the vesting of the related stock options and stock appreciation rights and the market price of the underlying common stock, as well as the vesting of PSARs and the equity value of the related subsidiary. The expense reflected in our consolidated financial statements was based on the market price of the underlying common stock as of the date of the financial statements.

In connection with our adoption of Statement 123R, we recorded an $89 million transition adjustment, net of related income taxes of $31 million, which primarily reflects the fair value of the liability portion of QVC's stock option awards at January 1, 2006. The transition adjustment is reflected in the accompanying consolidated statement of operations as the cumulative effect of accounting change. In addition, we recorded $67 million of stock compensation expense for the year ended December 31, 2006, compared with $52 million for the comparable period in 2005. The 2006 stock compensation expense is net of a $24 million credit related to the terminations of QVC's stock option plan as described in note 13 to the accompanying consolidated financial statements. As of December 31, 2006, the total unrecognized compensation cost related to unvested Liberty equity awards was approximately $59 million. Such amount will be recognized in our consolidated statements of operations over a weighted average period of approximately 2 years.

Depreciation and amortization. Depreciation and amortization increased in 2006 due to our acquisitions and capital expenditures partially offset by a decrease at Starz Entertainment due to certain intangibles becoming fully amortized. As the businesses we acquired in 2006 are not capital intensive, we do not expect them to have a significant impact on our depreciation in the future. Depreciation and amortization decreased slightly in 2005 due to certain assets becoming fully amortized, partially offset by an increase in depreciable assets due to capital expenditures.

Impairment of long-lived assets. We acquired our interest in FUN in March 2006. Subsequent to our acquisition, the market value of FUN's stock has declined significantly due to the performance of certain of FUN's subsidiaries and uncertainty surrounding government legislation of Internet gambling which we believe the market perceives as potentially impacting FUN's skill gaming business. In connection with our annual evaluation of the recoverability of FUN's goodwill, we received a third-party valuation, which indicated that the carrying value of FUN's goodwill exceeded its market value. Accordingly, we recognized a $111 million impairment charge related to goodwill and a $2 million impairment charge related to trademarks.

Operating income (loss). We generated consolidated operating income of $1,021 million, $944 million and $788 million in 2006, 2005 and 2004, respectively. The 2006 increase is due to increases for QVC ($209 million) and Starz Entertainment ($58 million), partially offset by losses generated by FUN ($140 million, including the above-described impairment charges) and Starz Media ($29 million) as well as an increase in corporate stock compensation expense of $34 million due to the adoption of Statement 123R. Our operating income in 2005 is attributable to QVC ($921 million) and Starz Entertainment ($105 million) partially offset by operating losses of our other consolidated subsidiaries and corporate expenses.

Other Income and Expense

Components of Other Income (Expense) are as follows:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Interest expense			
Interactive Group	$(417)	(374)	(385)
Capital Group	(263)	(252)	(234)
Consolidated Liberty	$(680)	(626)	(619)
Dividend and interest income			
Interactive Group	$ 40	35	20
Capital Group	174	108	110
Consolidated Liberty	$ 214	143	130
Share of earnings of affiliates			
Interactive Group	$ 47	9	(3)
Capital Group	44	4	18
Consolidated Liberty	$ 91	13	15
Realized and unrealized gains (losses) on financial instruments, net			
Interactive Group	$ 20	(17)	(17)
Capital Group	(299)	274	(1,267)
Consolidated Liberty	$(279)	257	(1,284)
Gains (losses) on dispositions, net			
Interactive Group	$ —	40	7
Capital Group	607	(401)	1,404
Consolidated Liberty	$ 607	(361)	1,411
Nontemporary declines in fair value of investments			
Interactive Group	$ —	—	—
Capital Group	(4)	(449)	(129)
Consolidated Liberty	$ (4)	(449)	(129)
Other, net			
Interactive Group	$ 23	(38)	4
Capital Group	(5)	(1)	(30)
Consolidated Liberty	$ 18	(39)	(26)

Interest expense. Consolidated interest expense increased 8.6% and 1.1% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year. Interest expense attributable to the Interactive Group increased 11.5% in 2006 due to increased borrowings by QVC, which were used to retire certain of our publicly-traded debt and for repurchases of Liberty Interactive common stock. The increase in 2005 is due to lower outstanding debt balances, more than offset by higher interest rates on our variable rate debt.

Dividend and interest income. Interest income for the Capital Group increased in 2006 due to higher invested cash balances. Interest and dividend income for the year ended December 31, 2006 was comprised of interest income earned on invested cash ($84 million), dividends on News Corporation common stock ($57 million), dividends on other available-for-sale ("AFS") securities ($20 million) and other ($13 million). If our exchange transaction with News Corporation described below is completed as currently contemplated, we expect that our dividend income from News Corporation in 2007 will be approximately 50% of the 2006 amount and zero in subsequent years.

Share of earnings of affiliates. Our 2006 share of earnings of affiliates are attributable to Expedia ($50 million) and other investees ($41 million). In December 2006, we announced that we had entered into an exchange agreement with News Corporation pursuant to which, if completed, we would exchange our approximate 16.2% ownership interest in News Corporation for a subsidiary of News Corporation, which would own News Corporation's approximate 38.5% interest in The DirecTV Group, Inc., three regional sports television networks and approximately $550 million in cash. Consummation of the exchange, which is subject to various closing conditions, including approval by News Corporation's shareholders, regulatory approval and receipt of a favorable ruling from the IRS that the exchange is tax free, is expected in mid- 2007. Upon consummation, if completed, we will account for our interest in The DirecTV Group using the equity method of accounting, which could result in a significant increase in our share of earnings of affiliates in future periods. In this regard, The DirecTV Group announced that its net income for the year ended December 31, 2006 was $1,420 million.

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

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Exchangeable debenture call option obligations	$(353)	172	(129)
Equity collars	(59)	311	(941)
Borrowed shares	(32)	(205)	(227)
Put options	—	(66)	2
Other derivatives	165	45	11
	$(279)	257	(1,284)

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

Transaction	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Capital Group			
Sale of investment in Court TV	$303	—	—
Sale of investment in Freescale	256	—	—
Sale of investment in Telewest Global, Inc.	—	(266)	—
Sale of investment in Cablevisión S.A.	—	(188)	—
Sale of News Corporation non-voting shares	—	—	844
Exchange transaction with Comcast	—	—	387
Other, net	48	53	173
	607	(401)	1,404
Interactive Group			
Other, net	—	40	7
	$607	(361)	1,411

In the above transactions, the gains or losses were calculated based upon the difference between the carrying value of the assets relinquished, as determined on an average cost basis, compared to the fair value of the assets received. See notes 6, 11 and 15 to the accompanying consolidated financial statements for a discussion of the foregoing transactions.

Nontemporary declines in fair value of investments. During 2006, 2005 and 2004, we determined that certain of our cost investments experienced other-than-temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based primarily on quoted market prices at the date each adjustment was deemed necessary. These adjustments are reflected as nontemporary declines in fair value of investments in our consolidated statements of operations. The impairment recorded in 2005 includes $352 million related to our investment in News Corporation voting shares.

Income taxes. Our effective tax rate was 26.2% in 2006, 74.6% in 2005 and 60.2% in 2004. Our 2006 rate is less than the U.S. federal income tax rate of 35% due, in part, to a deferred tax benefit we recognized when we decided to effect a restructuring transaction which was effective on April 1, 2006, and which enabled us to include TruePosition in our Federal consolidated tax group on a prospective basis. As a result of this decision and considering our overall tax position, we reversed $89 million of valuation allowance recorded against TruePosition's net deferred tax assets into our statement of operations as a deferred tax benefit in 2006. This valuation allowance did not relate to net operating loss carryforwards or some other future tax deduction of TruePosition, but rather related to temporary differences caused by revenue and cost amounts that were recognized for tax purposes in prior periods, but have been deferred for financial reporting purposes until future periods. In addition, we recorded deferred tax benefits of $105 million for changes in our estimated foreign tax rate based on our projections of our ability to use foreign tax credits in the future and $25 million for changes in our estimated state tax rate used to calculate our deferred tax liabilities. These benefits were partially offset by current tax expense of $43 million on the gain on sale of Court TV for which we had higher book basis than tax basis and $39 million for impairment of goodwill that is not deductible for tax purposes. In addition, we recorded state ($34 million) and foreign ($20 million) tax expense.

Our effective tax rate in 2005 was greater than the U.S. federal income tax rate of 35% primarily due to a tax benefit of $147 million that we recorded as a result of a change in our estimated effective state and foreign tax rates. In the third quarter of 2005, we assessed our weighted average state tax rate in connection with our spin off of Discovery Holding Company. As a result of this assessment, we decreased our state tax rate used in calculating the amount of our deferred tax liabilities and recognized a deferred income tax benefit of $131 million. Also in 2005, we reduced our estimated foreign tax rate related to QVC and recognized a tax benefit of $16 million. These tax benefits were partially offset by our foreign tax expense and an increase in our valuation allowance for deferred tax assets of subsidiaries that we do not consolidate for tax purposes. Our effective tax rate in 2004 differed from the U.S. federal income tax rate of 35% primarily due to foreign and state taxes.

Historically, we have not made federal income tax payments due to our ability to use prior year net operating and capital losses carryforwards to offset current year taxable income. However, based on current projections, we believe that we will use our available net operating and capital losses in 2007, and that we will start making federal income tax payments to the extent that we continue to generate taxable income in the future. These payments could prove to be significant.

Net earnings (loss). Our net earnings (loss) was $840 million, ($33) million and $46 million for the years ended December 31, 2006, 2005 and 2004, respectively, and was the result of the above-described fluctuations in our revenue and expenses. In addition, we recognized earnings (loss) from discontinued operations of $220 million, $10 million and ($59) million for the years ended December 31, 2006, 2005 and 2004, respectively. Included in our 2006 earnings from discontinued operations are tax benefits of

$236 million related to our excess outside tax basis in OPTV and AEG over our basis for financial reporting.

Liquidity and Capital Resources

While the Interactive Group and the Capital Group are not separate legal entities and the assets and liabilities attributed to each group remain assets and liabilities of our consolidated company, we manage the liquidity and financial resources of each group separately. Keeping in mind that assets of one group may be used to satisfy liabilities of the other group, the following discussion assumes, consistent with management expectations, that future liquidity needs of each group will be funded by the financial resources attributed to each respective group.

The following are potential sources of liquidity for each group to the extent the identified asset or transaction has been attributed to such group: available cash balances, cash generated by the operating activities of our privately-owned subsidiaries (to the extent such cash exceeds the working capital needs of the subsidiaries and is not otherwise restricted), proceeds from asset sales, monetization of our public investment portfolio (including derivatives), debt and equity issuances, and dividend and interest receipts.

Interactive Group. During the year ended December 31, 2006, the Interactive Group's primary uses of cash were the retirement of $1,369 million principal amount of senior notes that matured in September 2006, funding the acquisition of Provide ($465 million), repurchases of QVC common stock ($331 million), capital expenditures ($259 million), tax payments to the Capital Group ($173 million), stock compensation payments ($111 million) and the repurchase of outstanding Liberty Interactive common stock. Our board of directors has authorized a share repurchase program pursuant to which we may repurchase up to $2 billion of outstanding shares of Liberty Interactive common stock in the open market or in privately negotiated transactions, from time to time, subject to market conditions. During the period from May 10, 2006 to December 31, 2006, we repurchased 51.6 million shares of Liberty Interactive Series A common stock for aggregate cash consideration of $954 million pursuant to this share repurchase program. We may alter or terminate the stock repurchase program at any time.

The Interactive Group's uses of cash in 2006 were primarily funded with cash from operations and borrowings under QVC's credit facilities. As of December 31, 2006, the Interactive Group had a cash balance of $946 million.

The projected uses of Interactive Group cash for 2007 include approximately $430 million for interest payments on QVC debt and parent debt attributed to the Interactive Group, $350 million for capital expenditures, additional tax payments to the Capital Group and additional repurchases of Liberty Interactive common stock. In addition, we may make additional investments in existing or new businesses and attribute such investments to the Interactive Group. However, we do not have any commitments to make new investments at this time.

Effective March 3, 2006, QVC refinanced its existing bank credit facility with a new $3.5 billion bank credit facility, which was subsequently amended on October 4, 2006 (the "March 2006 Credit Agreement"). The March 2006 Credit Agreement is comprised of an $800 million U.S. dollar term loan that was drawn at closing, an $800 million U.S. dollar term loan that was drawn on September 18, 2006, a $600 million multi-currency term loan that was drawn in U.S. dollars on September 18, 2006, a $650 million U.S. dollar revolving loan and a $650 million multi-currency revolving loan. The foregoing multi-currency loans can be made, at QVC's option, in U.S. dollars, Japanese yen, U.K. pound sterling or euros. All loans are due and payable on March 3, 2011, and accrue interest at a rate equal to (i) LIBOR for the interest period selected by QVC plus a margin that varies based on QVC's leverage ratio or (ii) the higher of the Federal Funds Rate plus 0.50% or the prime rate announced by JP Morgan Chase Bank, N.A. from time to time. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments.

On October 4, 2006, QVC entered into a new credit agreement (the "October 2006 Credit Agreement"), which provides for an additional unsecured $1.75 billion credit facility, consisting of an $800 million initial term loan made on October 13, 2006 and $950 million of delayed draw term loans to be made after closing from time to time upon the request of QVC. The delayed draw term loans are available until September 30, 2007 and are subject to reductions in the principal amount available starting on March 31, 2007. The loans will bear interest at a rate equal to (i) LIBOR for the interest period selected by QVC plus a margin that varies based on QVC's leverage ratio or (ii) the higher of the Federal Funds Rate plus 0.50% or the prime rate announced by Wachovia Bank, N.A. from time to time. The loans are scheduled to mature on October 4, 2011.

Aggregate commitments under the March 2006 Credit Agreement and the October 2006 Credit Agreement are $5.25 billion, and outstanding borrowings aggregated $3.225 billion at December 31, 2006. QVC's ability to borrow the unused capacity is dependent on its continuing compliance with the covenants contained in the agreements at the time of, and after giving effect to, a requested borrowing.

Capital Group. During the year ended December 31, 2006, the Capital Group's primary uses of cash were the acquisition of Starz Media ($290 million) and FUN ($200 million), loans to WildBlue Communications, an equity affiliate ($187 million), and net cash transfers of $293 million to the Interactive Group prior to the Restructuring. These investing activities were funded with available cash on hand and proceeds from derivative settlements and asset sales.

The projected uses of Capital Group cash for 2007 include approximately $130 million for interest payments on debt attributed to the Capital Group. In addition, we may make additional investments in existing or new businesses and attribute such investments to the Capital Group. However, we do not have any commitments to make new investments at this time.

In connection with the issuance of our tracking stocks, our board of directors authorized a share repurchase program pursuant to which we may repurchase up to $1 billion of outstanding shares of Liberty Capital common stock in the open market or in privately negotiated transactions, from time to time, subject to market conditions. We may alter or terminate the stock repurchase program at any time. As of December 31, 2006, we have not repurchased any shares of Liberty Capital common stock pursuant to this repurchase program.

We expect that the Capital Group's investing and financing activities will be funded with a combination of cash on hand, cash proceeds from sales of OpenTV, AEG and our exchange transaction with News Corporation, cash provided by operating activities, tax payments from the Interactive Group, proceeds from collar expirations and dispositions of non-strategic assets. At December 31, 2006, the Capital Group's sources of liquidity include $2,288 million in cash and marketable debt securities and $7,386 million of non-strategic AFS securities including related derivatives. To the extent the Capital Group recognizes any taxable gains from the sale of assets or the expiration of derivative instruments, we may incur current tax expense and be required to make tax payments, thereby reducing any cash proceeds attributable to the Capital Group.

Our derivatives ("AFS Derivatives") related to certain of our AFS investments provide the Capital Group with an additional source of liquidity. Based on the put price and assuming we deliver owned or borrowed shares to settle each of the AFS Derivatives as they mature and excluding any provision for income taxes, the Capital Group would have attributed to it cash proceeds of approximately $322 million in 2007, zero in 2008, $1,180 million in 2009, $1,680 million in 2010, $446 million in 2011 and $866 million in 2013 upon settlement of its AFS Derivatives.

Prior to the maturity of the equity collars, the terms of certain of the equity collars allow borrowings against the future put option proceeds at LIBOR or LIBOR plus an applicable spread, as the case may be. As of December 31, 2006, such borrowing capacity aggregated approximately $4,494 million. Such borrowings would reduce the cash proceeds upon settlement noted in the preceding paragraph. In the event we complete our exchange transaction with News Corporation as currently contemplated, such borrowing capacity would be reduced by $916 million.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Capital Group

The following contingencies and obligations have been attributed to the Capital Group:

Starz Entertainment has entered into agreements with a number of motion picture producers which obligate Starz Entertainment to pay fees ("Programming Fees") for the rights to exhibit certain films that are released by these producers. The unpaid balance under agreements for film rights related to films that were available for exhibition by Starz Entertainment at December 31, 2006 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2006 is payable as follows: $110 million in 2007; $9 million in 2008; and $8 million thereafter.

Starz Entertainment has also contracted to pay Programming Fees for the rights to exhibit films that have been released theatrically, but are not available for exhibition by Starz Entertainment until some future date. These amounts have not been accrued at December 31, 2006. Starz Entertainment's estimate of amounts payable under these agreements is as follows: $538 million in 2007; $148 million in 2008; $93 million in 2009; $87 million in 2010; $31 million in 2011 and $67 million thereafter.

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

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

Liberty guarantees Starz Entertainment's film licensing obligations under certain of its studio output agreements. At December 31, 2006, Liberty's guarantees for studio output obligations for films released by such date aggregated $695 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, Starz Entertainment has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of Starz Entertainment, a consolidated subsidiary of ours, we have not recorded a separate liability for our guarantees of these obligations.

Since the date we issued our exchangeable debentures, we have claimed interest deductions on such exchangeable debentures for federal income tax purposes based on the "comparable yield" at which we could have issued a fixed-rate debenture with similar terms and conditions. In all instances, this policy has resulted in us claiming interest deductions significantly in excess of the cash interest currently paid on our exchangeable debentures. In this regard, we have deducted $2,218 million in cumulative interest expense associated with the exchangeable debentures since our 2001 split off from AT&T Corp. Of that amount, $629 million represents cash interest payments. Interest deducted in prior years on our exchangeable debentures has contributed to net operating losses ("NOLs") that may be carried to offset taxable income in 2006 and later years. These NOLs and current interest deductions on our exchangeable debentures are being used to offset taxable income currently being generated.

The IRS has issued Technical Advice Memorandums ("TAMs") challenging the current deductibility of interest expense claimed on exchangeable debentures issued by other companies. The TAMs conclude that such interest expense must be capitalized as basis to the shares referenced in the exchangeable debentures. If the IRS were to similarly challenge our tax treatment of these interest deductions, and ultimately win such challenge, there would be no impact to our reported total tax expense as the resulting increase in current tax expense would be offset by a decrease in our deferred tax expense. However, we would be required to make current federal income tax payments and may be required to make interest payments to the IRS. These payments could prove to be significant.

Pursuant to a tax sharing agreement (the "AT&T Tax Sharing Agreement") between us and AT&T when we were a subsidiary of AT&T, we received a cash payment from AT&T in periods when we generated taxable losses and such taxable losses were utilized by AT&T to reduce its consolidated income tax liability. To the extent such losses were not utilized by AT&T, such amounts were available to reduce federal taxable income generated by us in future periods, similar to a net operating loss carryforward. While we were a subsidiary of AT&T, we recorded our stand-alone tax provision on a separate return basis. Subsequent to our spin off from AT&T, if adjustments are made to amounts previously paid under the AT&T Tax Sharing Agreement, such adjustments are reflected as adjustments to additional paid-in capital. During the period from March 10, 1999 to December 31, 2002, we received cash payments from AT&T aggregating $670 million as payment for our taxable losses that AT&T utilized to reduce its income tax liability.

Also, pursuant to the AT&T Tax Sharing Agreement and in connection with our split off from AT&T, AT&T was required to pay us an amount equal to 35% of the amount of the net operating loss carryforward ("TCI NOLs") reflected in TCI's final federal income tax return that had not been used as an offset to our obligations under the AT&T Tax Sharing Agreement and that had been, or were reasonably expected to be, utilized by AT&T. In connection with our split off from AT&T, we received an $803 million payment for the TCI NOLs and recorded such payment as an increase to additional paid-in capital. We were not paid for certain of the TCI NOLs ("SRLY NOLs") due to limitations and uncertainty regarding AT&T's ability to use them to offset taxable income in the future. In the event AT&T was ultimately able to use any of the SRLY NOLs, they would be required to pay us 35% of the amount of the SRLY NOLs used. In the fourth quarter of 2004 and in connection with the completion of an IRS audit of TCI's tax return for 1994, it was determined that we were required to recognize additional taxable income related to the recapitalization of one of our investments resulting in a tax liability of approximately $30 million. As a result of the tax assessment, we also received a corresponding amount of additional tax basis in the investment. However, we were able to cause AT&T to use a portion of the SRLY NOLs to offset this taxable income, the benefit of which resulted in the elimination of the $30 million tax liability and an increase to additional paid-in capital.

In the fourth quarter of 2004, AT&T requested a refund from us of $70 million, plus accrued interest, relating to losses that it generated in 2002 and 2003 and was able to carry back to offset taxable income previously offset by our losses. AT&T has asserted that our losses caused AT&T to pay $70 million in alternative minimum tax ("AMT") that it would not have been otherwise required to pay had our losses not been included in its return. In 2004, we estimated that we may ultimately pay AT&T up to $30 million of the requested $70 million because we believed AT&T received an AMT credit of $40 million against income taxes resulting from the AMT previously paid. Accordingly, we accrued a $30 million liability with an offsetting reduction of additional paid-in capital. The net effect of the completion of the IRS tax audit noted above (including the benefit derived from AT&T for the utilization of the SRLY NOLs) and our accrual of amounts due to AT&T was an increase to our deferred tax assets and an increase to our other liabilities.

In the fourth quarter of 2005, AT&T requested an additional $21 million relating to additional losses it generated and was able to carry back to offset taxable income previously offset by our losses. In addition, the information provided to us in connection with AT&T's request showed that AT&T had not yet claimed a credit for AMT previously paid. Accordingly, in the fourth quarter of 2005, we increased our accrual by approximately $40 million (with a corresponding reduction of additional paid-in capital) representing our estimate of the amount we may ultimately pay (excluding accrued interest, if any) to AT&T as a result of this request. Although we have not reduced our accrual for any future refunds, we believe we are entitled to a refund when AT&T is able to realize a benefit in the form of a credit for the AMT previously paid.

In March 2006, AT&T requested an additional $21 million relating to additional losses and IRS audit adjustments that it claims it is able to use to offset taxable income previously offset by our losses. We have reviewed this claim and we believe that our accrual as of December 31, 2005 is adequate. Accordingly, no additional accrual was made for AT&T's March 2006 request.

Although for accounting purposes we have accrued a portion of the amounts claimed by AT&T to be owed by us under the AT&T Tax Sharing Agreement, we believe there are valid defenses or set-off or similar rights in our favor that may cause the total amount that we owe AT&T to be less than the amounts accrued; and under certain interpretations of the AT&T Tax Sharing Agreement, we may be entitled to further reimbursements from AT&T.

Capital Group and Interactive Group

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

We have contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible we 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.

Information concerning the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations at December 31, 2006 is summarized below:

	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(amounts in millions)				
Attributed Capital Group contractual obligations					
Long-term debt(1)	$ 4,738	103	1,812	66	2,757
Interest payments(2)	2,520	128	235	218	1,939
Long-term derivative instruments	1,901	1,484	—	155	262
Operating lease obligations	61	10	18	12	21
Programming Fees(3)	1,091	648	258	118	67
Purchase orders and other obligations	21	21	—	—	—
Total Capital Group	10,332	2,394	2,323	569	5,046
Attributed Interactive Group contractual obligations					
Long-term debt(1)	6,400	11	925	3,243	2,221
Interest payments(2)	3,987	427	825	570	2,165
Long-term derivative instruments	9	—	—	9	—
Operating lease obligations	72	18	27	17	10
Purchase orders and other obligations	1,013	1,013	—	—	—
Total Interactive Group	11,481	1,469	1,777	3,839	4,396
Consolidated contractual obligations					
Long-term debt(1)	11,138	114	2,737	3,309	4,978
Interest payments(2)	6,507	555	1,060	788	4,104
Long-term derivative instruments	1,910	1,484	—	164	262
Operating lease obligations	133	28	45	29	31
Programming Fees(3)	1,091	648	258	118	67
Purchase orders and other obligations	1,034	1,034	—	—	—
Total consolidated	$21,813	3,863	4,100	4,408	9,442

(1) Includes all debt instruments, including the call option feature related to our exchangeable debentures. Amounts are stated at the face amount at maturity and may differ from the amounts stated in our consolidated balance sheet to the extent debt instruments (i) were issued at a discount or premium or (ii) have elements which are reported at fair value in our consolidated balance sheet. Also includes capital lease obligations. Amounts do not assume additional borrowings or refinancings of existing debt.

(2) Amounts (i) are based on our outstanding debt at December 31, 2006, (ii) assume the interest rates on our floating rate debt remain constant at the December 31, 2006 rates and (iii) assume that our existing debt is repaid at maturity.

(3) Does not include Programming Fees for films not yet released theatrically, as such amounts cannot be estimated.

Recent Accounting Pronouncements

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, "*Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140.*" Statement 155, among other things, amends Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities,*" and permits fair value remeasurement of hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Statement 155 is effective after the beginning of an entity's first fiscal year that begins after September 15, 2006. We intend to adopt the provisions of Statement 155 effective January 1, 2007 and to account for our senior exchangeable debentures at fair value rather than bifurcating such debentures into a debt instrument and a derivative instrument as required by Statement 133. If we had adopted Statement 155 as of December 31, 2006, we would have recorded an increase to long-term debt of $1.9 billion, a decrease to long-term derivative instruments of $1.3 billion and an increase to accumulated deficit of $600 million.

In June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109.*" FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. While we have not completed our evaluation of the impact of FIN 48 on our financial statements, we believe that the application of FIN 48 will result in the derecognition of certain tax liabilities currently reflected in our consolidated balance sheet with a corresponding decrease to our accumulated deficit. We are unable to quantify the amount of these adjustments at this time.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*", which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. Statement 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact of the adoption of Statement 157 on our consolidated balance sheet, statements of operations and comprehensive earnings (loss), and statements of cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115.*" Statement 159 permits entities to choose to measure many financial instruments, such as available-for-sale securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the entity's statement of operations. Currently under Statement of Financial Accounting Standards No. 115, entities are required to recognize changes in fair value of available-for-sale securities in the balance sheet in accumulated other comprehensive earnings. Statement 159 is effective as of the beginning of an entity's fiscal year that begins after November 15, 2007. We are currently evaluating the potential impacts of Statement 159 on our financial statements and have not made a determination as to which of our financial instruments, if any, we will choose to apply the provisions of Statement 159.

Critical Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us 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. Listed below are the accounting estimates that we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. All of these accounting estimates and assumptions, as well as the resulting impact to our financial statements, have been discussed with our audit committee.

Carrying Value of Investments. Our cost and equity method investments comprise a significant portion of our total assets at each of December 31, 2006 and 2005. We account for these investments pursuant to Statement of Financial Accounting Standards No. 115, Statement of Financial Accounting Standards No. 142, Accounting Principles Board Opinion No. 18, EITF Topic 03-1 and SAB No. 59. These accounting principles require us to periodically evaluate our investments to determine if decreases in fair value below our cost bases are other than temporary or "nontemporary." If a decline in fair value is determined to be nontemporary, we are required to reflect such decline in our statement of operations. Nontemporary declines in fair value of our cost investments are recognized on a separate line in our statement of operations, and nontemporary declines in fair value of our equity method investments are included in share of losses of affiliates in our statement of operations.

The primary factors we consider in our determination of whether declines in fair value are nontemporary are the length of time that the fair value of the investment is below our carrying value; and the financial condition, operating performance and near term prospects of the investee. In addition, we consider the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and our intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. Fair value of our publicly traded investments is based on the market prices of the investments at the balance sheet date. We estimate the fair value of our other cost and equity investments using a variety of methodologies, including cash flow multiples, discounted cash flow, per subscriber values, or values of comparable public or private businesses. Impairments are calculated as the difference between our carrying value and our estimate of fair value. As our assessment of the fair value of our investments and any resulting impairment losses and the timing of when to recognize such charges requires a high degree of judgment and includes significant estimates and assumptions, actual results could differ materially from our estimates and assumptions.

Our evaluation of the fair value of our investments and any resulting impairment charges are made as of the most recent balance sheet date. Changes in fair value subsequent to the balance sheet date due to the factors described above are possible. Subsequent decreases in fair value will be recognized in our statement of operations in the period in which they occur to the extent such decreases are deemed to be nontemporary. Subsequent increases in fair value will be recognized in our statement of operations only upon our ultimate disposition of the investment.

At December 31, 2006, we had unrealized holding losses of $1 million related to certain of our AFS equity securities.

Accounting for Derivative Instruments. We use various derivative instruments, including equity collars, written put and call options, interest rate swaps and foreign exchange contracts, to manage fair value and cash flow risk associated with many of our investments, some of our debt and transactions denominated in foreign currencies. We account for these derivative instruments pursuant to Statement 133 and Statement of Financial Accounting Standards No. 149, "*Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities.*" Statement 133 and Statement 149 require that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of our derivatives are included in realized and unrealized gains (losses) on derivative instruments in our statement of operations.

We use the Black-Scholes model to estimate the fair value of our derivative instruments that we use to manage market risk related to certain of our AFS securities. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. We obtain volatility rates from independent sources based on the expected volatility of the underlying security over the term of the derivative instrument. The volatility assumption is evaluated annually to determine if it should be adjusted, or more often if there are indications that it should be adjusted. We obtain a discount rate at the inception of the derivative instrument and update such rate each reporting period based on our estimate of the discount rate at which we could currently settle the derivative instrument. At December 31, 2006, the expected volatilities used to value our AFS Derivatives generally ranged from 19% to 26% and the discount rates ranged from 5.1% to 5.4%. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of our derivative instruments may differ from these estimates.

Changes in our assumptions regarding (1) the discount rate and (2) the volatility rates of the underlying securities that are used in the Black-Scholes model would have the most significant impact on the valuation of our AFS Derivatives. The table below summarizes changes in these assumptions and the resulting impacts on our estimate of fair value.

Assumption	Estimated aggregate fair value of AFS Derivatives	Dollar value change
	(amounts in millions)	
As recorded at December 31, 2006	$ 983	—
25% increase in discount rate	$ 830	(153)
25% decrease in discount rate	$1,136	153
25% increase in expected volatilities	$ 925	(58)
25% decrease in expected volatilities	$1,060	77

Carrying Value of Long-lived Assets. Our property and equipment, intangible assets and goodwill (collectively, our "long-lived assets") also comprise a significant portion of our total assets at December 31, 2006 and 2005. We account for our long-lived assets pursuant to Statement of Financial Accounting Standards No. 142 and Statement of Financial Accounting Standards No. 144. These accounting standards require that we periodically, or upon the occurrence of certain triggering events, assess the recoverability of our long-lived assets. If the carrying value of our long-lived assets exceeds their estimated fair value, we are required to write the carrying value down to fair value. Any such writedown is included in impairment of long-lived assets in our consolidated statement of operations. A high degree of judgment is required to estimate the fair value of our long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. In addition, we may obtain independent third-party appraisals in certain circumstances. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Accordingly, any value ultimately derived from our long-lived assets may differ from our estimate of fair value. As each of our operating segments has long-lived assets, this critical accounting policy affects the financial position and results of operations of each segment.

Retail Related Adjustments and Allowances. QVC records adjustments and allowances for sales returns, inventory obsolescence and uncollectible receivables. Each of these adjustments is estimated based on historical experience. Sales returns are calculated as a percent of sales and are netted against revenue in our statement of operations. For the years ended December 31, 2006 and 2005, sales returns represented 18.5% and 18.0% of QVC's gross product revenue, respectively. The inventory obsolescence is calculated as a percent of QVC's inventory at the end of a reporting period, and is included in cost of goods sold in our statement of operations. At December 31, 2006, QVC's inventory is $915 million and the obsolescence adjustment is $95 million. QVC's allowance for doubtful accounts is calculated as a percent of accounts receivable at the end of a reporting period, and the change in such allowance is recorded as bad debt expense in our statement of operations. At December 31, 2006, QVC's trade accounts receivable are $973 million, net of the allowance for doubtful accounts of $60 million. Each of these adjustments requires management judgment and may not reflect actual results.

Income Taxes. We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns for each taxing jurisdiction in which we operate. This process requires our management to make judgments regarding the timing and probability of the ultimate tax impact of the various agreements and transactions that we enter into. Based on these judgments we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realizability of future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which we operate, our inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes could have a significant impact on our financial position.

Interactive Group

On May 9, 2006, our stockholders approved our corporate restructuring which, among other things, resulted in the creation of two tracking stocks, one of which is intended to reflect the separate performance of the Interactive Group. The Interactive Group consists of our subsidiaries QVC, Provide and BuySeasons, our interests in IAC/InterActiveCorp and Expedia and $3,108 million principal amount (as of December 31, 2006) of our existing publicly-traded debt.

The following discussion and analysis provides information concerning the results of operations and financial condition of the Interactive Group, which is principally comprised of QVC. Although our restructuring was not completed until May 9, 2006, the following discussion is presented as though the restructuring had been completed on January 1, 2004. The results of operations of Provide and BuySeasons are included in Corporate and Other since their respective date of acquisition in the tables below. Fluctuations in Corporate and Other from 2005 to 2006 are due primarily to the acquisitions of Provide and BuySeasons in 2006. This discussion should be read in conjunction with (1) our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups filed as Exhibit 99.1 to this Annual Report on Form 10-K.

Results of Operations

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Revenue			
QVC	$7,074	6,501	5,687
Corporate and Other	252	—	—
	$7,326	6,501	5,687
Operating Cash Flow (Deficit)			
QVC	$1,656	1,422	1,230
Corporate and Other	24	(5)	(6)
	$1,680	1,417	1,224
Operating Income (Loss)			
QVC	$1,130	921	760
Corporate and Other	—	(5)	(12)
	$1,130	916	748