THE SCRATCH REPORT

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Awaiting the Manifestation of Value

Company	Liberty Media Corp.
Ticker	NYSE: L
Price (9/23/05), mid-day	$8.10
52 - week range	$8.10 - $11.21
Shares outstanding (mill.)	2,803
Market capitalization (mill.)	$22,704
Dividend yield	None
Price/Earnings (2005 consensus est.)	nm
Price/Book value	0.97x
Total debt (mill.)	$10,331
Net Debt/capital	30.3%
Recommendation	**Buy**

Overview

- *Liberty media is a classic value investment encumbered by a holding company discount. Unlike other holding companies, however, Liberty has the advantage of employing one of the more astute and skillful practitioners of mergers and acquisitions. If recent transactions are a reliable predictor of future actions, John Malone is patiently seeking to catalyze value recognition for shareholders.*

- *The current discount to NAV is roughly 32%. This is sufficiently large and has been persistent in duration such that one feels compelled to believe that further action will be taken. In the interim, the assets continue to accumulate value and the discount may well expand. Nonetheless, appreciation to NAV, if even over a longer-term time horizon would provide appealing results.*

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Investment Thesis

Since 1991, under the navigation of John Malone, the company known as Liberty Media has methodically assembled a portfolio of media assets currently accorded a public value of $23 billion. Were it not for a history of transaction complexity as well as its unfortunate status as a holding company, the shares would likely be priced substantially higher. Throughout the past 15 years, the company has disassembled vis-à-vis spin-offs and tax advantaged sales certain assets only to then acquire more assets or reconfigure the composition of the portfolio. This has led to a persistent discount at which it has traded to NAV. Some have advanced the notion that the company simply ought to liquidate in order to return the rightful amount or fair market price of the assets to shareholders. Yet, in its crudest form, this would be a taxable event. Readers familiar with the modus operandi of Mr. Malone are very well aware of his aversion to paying unnecessary corporate taxes.

It does appear, at least as near as one can tell, that the Liberty assets have now been monetized to a greater degree than just a few years prior. This was accomplished through the spin-off of Liberty International and, more recently, through the spin-off of Discovery Channel (and other related assets assigned to Discovery). What now remains in the operational sense are the following cable network channels: QVC shopping network, Starz Entertainment Group, Game Show Network, and Court TV. QVC, which is by far the most valuable asset, is expanding its cash flow at a rate of 15% - 20% annually. As a result, it most likely accounts for half of the present share price. The remaining cable properties, if assigned a conservative valuation, constitute about $1 per Liberty share.

The balance of Liberty is represented by publicly traded equities, the most significant of which are News Corp, Time Warner, IAC/Interactive, Expedia, Motorola, and SprintNextel. These are, with the exception of certain shares that were pre-sold to collateralize exchangeable debt issued by Liberty, liquid, and would provided immediate cash to shareholders. The entire equity portfolio appears to represent almost $8 per Liberty share. Thus, absent QVC, Liberty would closely resemble a closed end mutual fund trading at a tremendous discount to NAV. Alternatively speaking, one would be acquiring QVC, which is reasonably valued at around $17 billion, at no additional cost. Given the magnitude of undervaluation, Liberty is unquestionably a value investment worthy of purchase consideration.

The value of Liberty's public investments, operating assets, cash reserves, and net operating loss carryforwards is estimated within these pages to be $43.8 billion. The face value of its debt is $10.3 billion. Therefore, the net asset value would be $33.4 billion, which is a 47% premium to the current market capitalization.

Given the investing acumen of Mr. Malone, and his devotion to managing Liberty for its asset value rather than earnings, it is hard to imagine that he will allow a valuation discrepancy such as this to persist for very much longer. Evidence of possible future actions may have been provided by the recent Discovery transaction, which allowed these assets to be separately valued by public investors. It is also said to be the case that he and Rupert Murdoch, who controls News Corp. and of which Liberty is a large shareholder, are engaged in a game of corporate chess concerning the proper method with which to unlock the underlying value of News Corp, if such value exists.

At present, cable television networks trade or have been sold at high multiples of cash flow. This, however, does introduce an element of valuation risk to the present recommendation. If, for instance, the perceived value of cable network properties at some point declines, the Liberty NAV would likely experience a similar contraction. It may well be difficult, if not impossible, to contain the progression of alternate media outlets. Nonetheless, the degree to which the assets are now undervalued appears to provide support for the share price such that the risk/reward profile is seemingly in favor of the investor. Furthermore, an April 2006 $8 put option was last asked at $0.35, which is merely 4% of the Liberty share price. Often times, the options market is a far more reliable indicator of perceived investment risk than the equity market. In this case, the option traders do not anticipate that the Liberty shares will fall below the $8 level, at least seven months from now, anyway, as indicated by the low purchase premium of the put options.

The appreciation to NAV would provide a return on the order of 47%, if perhaps diminished by a time factor. Even if this is a three or four year proposition, a low double-digit return could still be accomplished. It should be noted, however, that the assets, while appearing dormant, are in fact appreciating in value with each passing day. In practice, then, the annualized return would likely be higher, as the underlying NAV serves as a catalyst for an expanding share price. In addition, one might view this investment as a less cost-prohibitive method in which to participate in the currently desirable industry of cable programming. This being the case, the shares are recommended for purchase.

Alternative Recommendation

It must also be considered that Liberty could represent a so-called "value trap." In other words, the time value factor pertaining to the elimination of the holding company discount or, the eventual asset monetization, could erode potential returns. If one were to adopt this position, a buy-write strategy could be employed to provide annual investment income in the interim. For example, a slightly in-the-money January 2007 $8 call option was recently bid at $1.45. One could sell the contract at parity with the purchase of common shares and reduce the upfront cost of the Liberty share to $6.65. If the share price remains unchanged, the option would be called away at $8. The return ($8 ÷ $6.65) would be 20.3% cumulative, or 15% annualized. The indifference point is $6.65; if the shares fell to this level, Liberty would then trade at a 44% discount to NAV, all else equal. This would be a tremendous discount, if even by Liberty standards of comparison. Thus, and for the reader unsure of Mr. Malone's ability to elevate the share price, one could create double-digit annualized returns merely by rolling the option contracts.

Company Description

QVC, Inc.

QVC is a leading provider of consumer products via 24-hour televised shopping programs and on the internet. The QVC programming episodes are typically hosted by live personnel who present the merchandise and provide relevant product information. Although historically known for its televised programs, the internet recently contributed 13% of total revenue in 2004.

QVC purchases products directly from manufacturers and wholesalers. These items are generally classified into three categories: Home, Apparel/Accessories, and Jewelry. It maintains four domestic phone centers that direct call volume. At the end of 2004, the network reached 88 million homes in the United States, 16 million households in the United Kingdom, 36 million households in Germany and Austria, and 15 million households in Japan.

QVC essentially has a revenue sharing or commission arrangement with most cable and satellite providers. Based on market share, the distributors can collect up to 5% of net sales of merchandise sold via the television programs in their respective service areas in the U.S., United Kingdom, and Germany. In addition, QVC also makes payments to the distributors for the right of the network to be broadcast below channel 35, as this is a desirable location for potential QVC customers. In Japan, some providers earn a fixed fee regardless of sales, while others receive the commission based fees. It is perhaps evident that the television-based sales approach is far more costly than simply the operation of a commerce-based internet website.

In September 2003, Liberty purchased the 56.5% of QVC it did not already own from Comcast for roughly $7.9 billion. The current ownership level is slightly over 98%, as the QVC management team holds the remaining minority interest. It should be noted, however, that the true economic value of the network probably was not represented in this transaction. This is because Liberty expended only $2.6 billion, while the balance was financed with equity and debt. It appears this was done to insulate Comcast from a majority of the taxes due, and which likely reduced the purchase price paid by Liberty.

In any event, QVC is a rapidly expanding entity. Revenues have increased at an annually compounded rate of 14% since 2002. Although it cannot be stated for certain, the growing contribution of the internet as a retail channel, as well as volume discounts attained from manufacturers, has perhaps led to the recent margin expansion in which EBITDA has increased from 19.7% of revenues in 2002 to 21.6% in 2004. As a result, cash flow has disproportionately risen in relation to revenues at an annualized rate of 19.5%.

Table 1: The Expansion of QVC, 2002-2004

	Years ended December 31,			
($ millions)	2004	2003	2002	*Annl'zd %*
Revenues	5,687	4,889	4,362	*14.18%*
Cost of sales	3,594	3,107	2,784	
Gross profit	2,093	1,782	1,578	*15.17%*
Margin	*36.80%*	*36.45%*	*36.18%*	
Operating expenses	497	447	413	
SG&A expenses	366	322	304	
EBITDA	1,230	1,013	861	*19.52%*
Margin	21.63%	20.72%	19.74%	
Stock compensation	33	6	5	
Depreciation and amortization*	437	222	119	
Operating income	760	785	737	

*D&A for these periods is not comparable due to the acquisition of QVC by Liberty from Comcast in 2003.

Starz Entertainment Group

Starz Entertainment Group provides premium movie networks distributed by cable and satellite providers. It currently owns and operates 14 full-time domestic movie channels, which consists of STARZ!, ENCORE, and MOVIEPLEX. At the end of 2004, Starz Entertainment Group had 172.8 million subscription units, defined as the number of services that are purchased by the cable and satellite distributors.

Starz generates revenue through payments made by distribution providers based on the number of subscribers in a given service area. In turn, Starz must acquire the rights from motion picture studios to broadcast movie titles. Through long-term licensing agreements, Starz has access to 4,750 movies.

The operating performance of this network of channels has been erratic lately primarily due to higher programming costs. It should be borne in mind that a movie channel essentially fulfills the wholesale function similar to the operations of a retail wholesaler. For example, the movie studios produce the end product, the cost of which varies according to the title's success in theaters. In the case of a blockbuster hit, Starz would incur a higher licensing fee for distribution rights, yet it may not be able to fully recover this cost from the cable or satellite distributor based on long term contracts previously negotiated. Currently, it appears that the cost of licensing has risen while consolidation within the cable industry, and the accompanying bargaining leverage, has facilitated margin erosion at the Starz level of the distribution chain. This can be viewed in the following table.

Table 2: Starz Entertainment Group

	Years ended December 31,		
($ millions)	2004	2003	2002
Revenues	963	906	945
EBITDA	239	368	371
Margin	*24.82%*	*40.62%*	*39.26%*

Court TV and Game Show Network

Courtroom Television Network (Court TV) is 50% jointly owned by Liberty and Time Warner. It is a basic cable network that provides informative and entertaining programs based on the American legal system. Programs include Forensic Files, Psychic Detectives, and original movies such as Exonerated. Since 2003, the network has achieved the necessary economics of scale to produce cash flow, which was recently about 23% of revenues. Separately, it appears that after January 2007, Liberty has the right to put its 50% interest back to Time Warner if so desired.

Table 3: Court TV

	Years ended December 31,			
($ millions)	2004	2003	2002	*Annl'zd %*
Revenues	227	186	148	*23.85%*
EBITDA	52	43	(1)	
Margin	*22.91%*	*23.12%*	*nm*	

The Game Show Network (GSN) is co-owned by Liberty and Sony Pictures Entertainment. The game-related basic cable channel recorded 56 million subscribers in 2004. GSN offers 24-hour programming consisting of game shows, casino games, reality series, documentaries, and other gaming content. More recently, it began offering interactive-based shows that allow the viewer to participate in the gaming activity via the television remote control or internet. GSN is still gaining the critical mass among cable providers and viewers to become profitable, although revenues are expanding rapidly.

Table 4: Game Show Network

	Years ended December 31,			
($ millions)	2004	2003	2002	*Annl'zd %*
Revenues	88	76	53	*28.86%*
EBITDA	(11)	1	(2)	

Other Operating Assets

There are certain assets of Liberty that are, at least at the present time, rather inconsequential to overall operations or even to the parent market capitalization. Their financial contribution, such as it is, is not explicitly recorded on the income statement or balance sheet. Nonetheless, their description in brevity will be located below. One might note, however, that On Command is perhaps the most valuable of these venture-type investments, and is estimated to be worth roughly $400 million.

On Command (100% owned) – A leading provider of in-room video entertainment and information services to hotels, motels, and resorts. The installed base of rooms was 831,000 at the end of 2004. There are two primary technology platforms that deliver the media content: OCX and OCV. The OCX video system provides enhanced multimedia applications including graphical interface for movies and games. The OCV video system is a video selection and distribution technology that allows customers to select movies and games through the television set.

Current Communications Group (16% owned) – Focused on developing Broadband over Power Line (BPL) technology and solutions through its two subsidiaries, Current Communications and Current Technologies.

TruePosition, Inc. (89% owned) – Develops and markets technology for locating wireless carriers, application providers, and other enterprises to provide Enhanced 911 and other location-based services to mobile users worldwide. Aside from 911 services, TruePosition provides a "concierge" of sorts to the mobile user such as the identification of gas stations, ATM machines, and restaurants.

Wildblue Communications, Inc. (32% owned) – Currently building a ka-band satellite network that will focus on providing broadband services to homes and small offices in North and South America.

Observations on John Malone

Over the past one and two decades, Mr. Malone has been one of the most gifted practitioners of corporate chess on a grand scale. He employs holding companies with a great many properties, both publicly traded and private, both fully and partially owned, with many of those subsidiaries themselves being holding companies with their own portfolios of fully and partially owned businesses. He has tended to add to this deliberate complexity by using substantial leverage, which creates two additional sets of interested parties: both equity and debt investors.

This type of structure, in concert with the normal shifting financial fortunes of these companies as well as the shifting passions of public market investors, almost ensures periodic valuation extremes. On these occasions, when a particular one of these pieces on the Liberty Media chessboard commands a sufficient premium, whether equity or debt, he has sold additional interests to the public. When one of these pieces or instruments has sold at an extreme discount, he has arranged to reacquire them.

Liberty Media, for instance, was spun off from Telecommunications Inc. in 1991 as a tracking stock to hold the various programming interests Mr. Malone had been assembling apart from the cable television systems of parent Telecommunications Inc. During periods when the shares were exceedingly low, the company might have conducted a rights offering whereby shareholders were given the right to acquire additional common stock. This being a time when investors were clearly disenchanted with the shares, insiders were able to exercise oversubscription rights to acquire those new shares not acquired by other shareholders. This tactic both provided liquidity to what might have been a distressed entity and allowed insiders to increase their holdings. By the time of the 1998 merger of Telecommunications Inc. with AT&T, Mr. Malone made about 40 times the original $42 million investment in Liberty Media.

More recently, Mr. Malone used certain chess pieces to keep afloat and concentrate Liberty Media International's (LMI) interest its largest subsidiary, UnitedGlobalCom (UGC), which was extremely leveraged and bordering on bankruptcy. He did this through then 55%-controlled United Pan-Europe. While UnitedGlobalCom shares traded at prices in excess of $100 in March 2000, they collapsed to $0.75 by October 2001. In May 2001, Liberty Media loaned United Pan-Europe the sum of €1 billion, which it then contributed to UnitedGlobalCom. United Pan-Europe also contributed $200 million of cash and $1.44 billion face amount of United Pan-Europe Senior Notes as well as €260 million face amount of United Pan-Europe euro-denominated notes to United GlobalCom. These bonds had been purchased in the open market by Liberty Media at probably at no more than 25% of par value, which means at astronomical yields to maturity. In any case, Liberty Media received 274 million United GlobalCom shares in exchange for these assets. It also purchased directly from United GlobalCom another 12 million common shares at a price of $1.67 per share. As a consequence of these transactions, Liberty Media not only substantially increased its interest in UnitedGlobalCom, but its value as well. The market being mightily impressed, the UnitedGlobalCom shares appreciated by 540% over the ensuing three months alone. In January of this year LMI announced that it would merge with UnitedGlobalCom to form a new holding company called Liberty Global.

Valuation

Introductory Remarks

Readers are probably well aware at this point that the discussion of valuation has come at an unusually early juncture in this particular report. This is in fact deliberate and therefore requires a brief explanation. For one, there are essentially only two operating entities remaining of Liberty Media that are of primary concern, those being QVC and Starz Entertainment Group. These businesses are in the general sense relatively easily to comprehend, analyze, and compare, and their growth and profitability profiles have been presented accordingly. The balance of Liberty consists of publicly valued investments. These will be mentioned shortly, yet their description is not really necessary since they are widely held and well-known securities. The cash flow and earnings generated by the consolidated subsidiaries, if viewed in their totality, are secondary in importance to the net asset value. Mr. Malone is not particularly concerned with the appearance of profit, at least at this point in the company's lifecycle. Rather, he places furthermost priority on raising this net asset value. In fact, persistent losses result in the accumulation of income tax credits. Therefore, and paradoxically, the soon-to-be derived valuation is not really complex at all despite the historical actions of the company's mastermind.

QVC

There are two "comparable" television-based cable shopping networks, although not particularly good comparisons, that may serve as somewhat of a basis for the QVC valuation. Firstly, there is the Home Shopping Network (HSN), which is owned by IAC/Interactive Corp. IAC certainly does not trade at the premium multiple it once received, and it appears that following the spin-off of Expedia, and further employing the consensus estimates, it trades at about 6.5x EBITDA. IAC, of course, owns many media-related or internet-based properties. The most significant of which, HSN, has reached a point of maturity whereby the growth rate has markedly declined. For example, the core HSN domestic revenues expanded by merely 2% in 2005. Moreover, it is far less profitable than QVC, as the EBITDA margin is 8.7%. It will be recalled that QVC recorded a 23% margin, which is also steadily rising. Nonetheless, the analytical community believes HSN is worth maybe 8x cash flow.

The second basis of comparison is Shop At Home, which is owned by E.W. Scripps. E.W. Scripps was itself the subject of a previous *Scratch Report* purchase recommendation on 3/23/05. Shop At Home is still relatively small, not yet profitable, but is growing at a consistent rate. Unfortunately, as noted within that report, it is accorded little, if any value within the overall Scripps valuation.

Clearly, QVC should be valued superior to HSN. At the time of its purchase by Liberty in 2003, the implied value was about $14 billion, if not on discounted terms due to tax considerations. This value can be verified by dividing the purchase price of $7.9 billion by the 56.5% interest that was acquired. However, cash flow is expected to expand at a rate of roughly 15% - 20% per annum. IAC recently purchased a catalog-based retail firm known as Cornerstone Brands, Inc. from Madison Dearborn Partners LLC/JP Morgan Partners for what was said to be 11x EBITDA. These, of course, are not identical business models. The implied value of Scripp's successful Food TV and Home and Garden properties is roughly 14x – 16x EBITDA. These generate, unfortunately, higher profit margins than the quasi-retail operations of QVC. Lastly, the current multiple of Discovery Holding Company is nearly 12x EBITDA, but which is also limited in comparative qualities.

If the reader is not yet entirely discouraged, a slightly arbitrary, but nonetheless reasonable valuation may suffice. Let us assume that the current 18% rate of cash flow growth is repeated during the second half of this year. An annualized approach would improperly disregard the seasonality of this business, in which a disproportionate amount of sales are consummated in the fourth quarter. On these grounds, it would produce $1.451 billion of EBITDA. At a multiple of 12x, the assets would be worth $17.1 billion, after accounting for 98.2% ownership.

Starz Entertainment Group

Starz has qualities similar in character to three other publicly traded cable networks, those being: Crown Media Holdings, Discovery Holding Company, and the HGTV and Food Network networks of Scripps. Crown Media, in which Liberty appears to own a certain number of shares, encompasses the Hallmark Channel as well as the Hallmark library of movie and miniseries titles. It has recently offered itself for sale, which would essentially result in a private market valuation in the public market. However, there are two confounding variables. Firstly, in terms of its financial profile, it is unprofitable, generates negative cash flow, and is heavily indebted. Secondly, the value of its film library is estimated to be worth $1/4^{th}$ of its enterprise value. This being the case, it trades at an extreme valuation based on reported sales, or a multiple of 10.5x.

Discovery Holdings, which includes the film production/services assets of Ascent Media in addition to the domestic and international operations of the Discovery Channel, generates a superior cash flow margin relative to that of Starz (23% versus 16%). It trades at 11.8x annualized EBITDA and 2.3x revenues based on its enterprise value. At these multiples, Starz would be worth between $1.9 billion and $2.4 billion. Yet, for the time being, the EBITDA margin is contracting. Therefore, a discount should be applied. The company estimates it will produce $160 million of EBITDA in 2005. It would then be worth $1.6 billion at a multiple of 10x. This is also well below the 14x – 16x level of valuation accorded to the Scripp's networks, which, as well, are nearly 2x more profitable than Starz on a cash flow basis.

Other Operating Assets

In 2004, Court TV recorded $52 million of EBITDA, which is $26 million net to Liberty. Unfortunately, as this is an equity method investment, Liberty does not disclose revenues and EBITDA on a quarterly basis. Nonetheless, it achieves a cash flow margin of 23%, which is nearly identical to that of Discovery. It is growing at about 20% annually, which should be reflected in its valuation. Thus, cash flow of $31.2 million might be net to Liberty in 2005. At the Discovery multiple of 11.8x, Liberty's share of Court TV would be worth $368 million.

The Game Show Network has generated mostly losses to this point, but is nearing a point of inflection. If the current 15.8% rate of sales growth is applied to 2004 revenues of $88 million, Liberty's share would be $50.95 million, which suggests a value of $117 million if based on a 2.3x multiple.

Lastly, the financial information of On Command is not specifically reported in the Liberty SEC filings. At the end of 2004, for two of the consolidated entities in the Interactive division, those being QVC and Ascent Media (which is now separated from Liberty), the company does provide a few financial results, such as revenues and operating cash flow. It also provides revenue and operating cash flow figures for "Other consolidated subsidiaries" within this division. One might presume that this would be for On Command Corp., since this is the last of the five constituents of this division listed in the 10-K. Unfortunately, this cannot be relied upon, as there could well be less significant but unlisted operations within the Interactive division. Very likely, the revenues of "Other consolidated subsidiaries" are probably represented predominantly by On

Command, but smaller operations could easily generate substantial losses that would make the earnings figure for "other consolidated subsidiaries" an unreliable proxy for On Command's earnings.

On Command is however perhaps the second largest provider of in-room entertainment in the U.S. and clearly has value at the public or private level. Fortunately, there is a basis for valuing this business. A somewhat larger competitor is LodgeNet Entertainment Corp., which serves 1.035 million rooms, versus the 831,000 rooms served by On Command. These two companies can be compared on the basis of rooms served and, perhaps revenues. The assumption that these comparisons are at all valid can be confirmed to some degree by reference to certain historical results. On Command was once publicly traded. In fact, it was 57%-owned by Ascent Entertainment when Ascent was spun off by Comcast in June 1997. Ascent was ultimately acquired by Liberty Media for $15.25 per share in February 2000.

In mid-1996, when Ascent was newly spun off, On Command and LodgeNet traded at the following valuations, operating figures representing the four quarters ended March 1996. There was a consistency of valuation metrics between LodgeNet and On Command in 1996, and there is a consistency of valuation metrics between LodgeNet in 2005 and LodgeNet in 1996. Accordingly, for the purposes of this valuation exercise, the current LodgeNet valuation metrics of 2x revenues and $528 per room served will be applied to On Command. The revenue multiple, assuming that the $300 million of revenues is actually attributable to On Command, would result in a valuation of $600 million; the per-room multiple would result in a valuation of $438 million. Since the former cannot be substantiated, the latter value is considered to be reasonable.

Table 5: On Command Valuation

	1996		2005	
	LodgeNet	On Command	LodgeNet	On Command
Market capitalization	124.3	360.0	266.3	-
Enterprise value	243.2	459.0	545.8	-
Revenue	107.0	172.2	268.2	309 (?)
EBITDA	26.6	38.8	92.0	-
margin	*24.86%*	*22.53%*	*34.30%*	-
Rooms served	432,696	917,000	1,034,600	831,000
Enterprise value/revenue	2.27x	2.67x	2.0x	-
Enterprise value/EBITDA	9.14x	11.83x	5.9x	-
Enterprise value/room	$562	$500	$528	-

Estimated value of On Command: (831,000 x $528) = $438.4m

Public Holdings and Summation of Parts

The public holding that has received much attention lately is the ownership of News Corp. shares. In December 2004, Liberty acquired 92 million shares of Class B News Corp. in exchange for 86.9 million Class A shares. This in effect raised the level of Liberty's voting interest in News Corp. to 18%. Since the economic interest was not substantially altered in the transaction, Mr. Malone clearly wishes to assert his presence to Mr. Murdoch. Moreover, Mr. Malone apparently feels News Corp. is either undervalued or possesses media properties that would be attractive to the Liberty portfolio. If the latter assumption is correct, it is quite possible that the News Corp. shares could be exchanged for certain assets, which probably would represent the tax-free transaction Mr. Malone desires. The outcome, of course, is not ultimately clear, and, further, is of no particular importance to the current economic value of the News Corp. shares. In any case, it is concluded below that the value of Liberty's public investments is equal to $21.5 billion, or $7.68 per Liberty share.

There also exist net operating and capital loss carryforwards in the amount of $3.162 billion, most of which expire after 2009. Readers can be reasonably assured that Liberty will make full use of this asset to whatever extent possible. However, the valuation of NOL's presents analytical difficulties. For instance, their ultimate expiration may be several years away, but Liberty could deploy them at any time. Thus, a discounted present value may grossly underestimate true economic worth. Moreover, operating loss carryforwards, in some cases, may only be applied to foreign income, or vice versa. As a result there are several variables that confound accuracy. Nonetheless, the assets do exist and must be valued. In this regard, the following method, albeit imprecise, is offered to establish a mid-point value. If discounted at 10% over a ten year period, the present value would be $1.2 billion, or $0.43 per share. Separately, the company last reported $1.4 billion of cash, or $0.49 per share. The total of these assets equals $8.61 per share.

On an operating basis, QVC was determined to be worth $17.1 billion, while the remaining subsidiaries might carry a value of $2.5 billion. In the aggregate, Liberty's total assets might equal $15.61 per share. Less the $3.69 per share face amount of debt, the Liberty NAV is $11.92 per share, which is a 47% premium to the present share price. Alternatively speaking, it trades at a 32% discount to NAV.

Table 6: Liberty NAV

Public Investments	Ticker	Price	Shares Owned (mil)	Shares Hedged*	Hedge Price*	Value (9/13/05)	Per Lib. share
NewsCorp	NWSa	$15.98	237.7	-	-	3,798	
	NWS	$16.97	280	-	-	4,752	
				-	-	8,550	$3.05
IAC Interactive	IACI	$25.19	69.2	-	-	1,743	$0.62
Expedia	EXPE	$21.16	69.2	-	-	1,464	$0.52
Time Warner	TWX	$18.85	171.2	100.5	$17.42	3,083	$1.10
Sprint Nextel	S	$25.04	78.7	10	$87.15	2,421	$0.86
	S	$25.04		6.8	$119.20	811	$0.29
Motorola	MOT	$23.67	73.5	22.1	$27.16	1,817	$0.65
Viacom	VIA	$34.72	14.9	14.9	$53.86	803	$0.29
OpenTV Corp.	OPTV	$2.73	39	-	-	106	$0.04
Priceline.com	PCLN	$20.42	0.4	-	-	8	$0.00
IDT Corporation	IDT	$12.57	17.2	-	-	216	$0.08
GSI Commerce	GSIC	$18.95	25.1	-	-	476	$0.17
Crown Media Holdings	CRWN	$11.00	1.7	-	-	19	$0.01
						21,517	$7.68
Add: Cash						1,387	$0.49

Cont'd

Add: NOL's	1,219	$0.43
Subtotal of non-operating assets	24,123	$8.61
Operating Subsidiaries:		
QVC (98.2% ownership)	17,099	$6.10
Starz Encore Group	1,600	$0.57
Court TV (50% ownership)	368	$0.13
Game Show Network (50% ownership)	117	$0.04
On Command	438	$0.16
	19,622	$7.00
Total Assets	43,745	$15.61
Less: face value of debt	10,331	$3.69
Net asset value	33,414	$11.92
Current market value	22,704	
Shares outstanding	2,803	
Price per share	$8.10	

NAV per share	$11.92
	-
Discount to NAV	32.06%
Appreciation to NAV	47.20%

($ in millions)

*Refers to the shares that were presold to collateralize the issuance of exchangeable debt, and the prices at which those offerings were made.

Concluding Thoughts

It is interesting to note that the value of the public investments, NOL's, and cash balance exceeds the current market capitalization. In other words, the investor is acquiring QVC, Starz, and other subsidiaries with a private value of $19.6 billion and cash flow in excess of $1 billion at no cost. Very few instances of undervaluation of this magnitude exist within the domain of large capitalization equities.

There are undoubtedly readers of this publication who are able, and in fact do tolerate an investment holding period of more than the conventional 1-2 years. At times, awaiting the emergence of perceived value is a tiresome, if not humbling experience. For those individuals defiant of conventional investment wisdom or for those who believe that undervaluation alone can serve as the necessary catalyst for price appreciation, the following exercise is offered in commiseration.

On a cumulative basis, a return to NAV would be 47%. Most astute observers will concur that this is not likely to happen over 12 months. Therefore, the annualized returns to the investor over a four-year time horizon are presented below. However, in reality, returns would be higher, since, in general, these are not dormant assets but are expanding in value. Further, it is not a passive portfolio such that assets that are not expanding are subject to redeployment. It is not as if the portfolio manager in this instance is without a long and more than credible history of such activity.

Table 7: Potential Liberty Annualized Returns

Current price	$8.10
Est. NAV	$11.92
Cummulative return	47.2%
Year 1: 9/05 - 9/06	47.2%
Year 2: 9/05 - 9/07	21.3%
Year 3: 9/05 - 9/08	13.7%
Year 4: 9/05 - 9/09	10.1%

*Adjusted for inflation, returns would be lower.

Investment Summary

It is perhaps common knowledge that shares of Liberty Media have traded at a substantial discount to net asset value for the last few years during its transformation into a media holding company. Much of this sentiment has been caused by the complexity with which John Malone has structured the profusion of Liberty transactions. Yet, these have almost always been void of taxes and thus beneficial to shareholders. The operating portion of its business was greatly diminished following the spin-off of the Discovery assets this year. Depending upon the satisfactory outcome, or Discovery's proper public valuation, it is at least possible that the remaining primary asset bein QVC could be separated in a similar manner. Liberty virtually would then be reduced to a closed end mutual fund that trades at a large discount to NAV. Mr. Malone, given his history, would certainly not be satisfied and would ultimately seek to eliminate the discount. Nonetheless, Liberty is quite undervalued and would provide a double digit return over nearly four years to the patient investor. In the interim, one could simply wait and extend confidence in his ability to further the company's value. Accordingly, the Liberty shares are recommended for purchase.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2004*	2005	2004*
	AMOUNTS IN MILLIONS, EXCEPT PER SHARE AMOUNTS			
Revenue:				
Net sales from electronic retailing	$1,479	1,289	2,943	2,572
Communications and programming services	538	512	1,069	981
	2,017	1,801	4,012	3,553
Operating costs and expenses:				
Cost of sales--electronic retailing services	922	804	1,836	1,615
Operating	497	414	982	812
Selling, general and administrative ("SG	211	210	425	400
Stock-based compensation--SGA(note 2)	23	10	21	11
Litigation settlements	--	--	--	(42)
Depreciation and amortization	181	179	359	357
	1,834	1,617	3,623	3,153
Operating income	183	184	389	400
Other income (expense):				
Interest expense	(146)	(149)	(295)	(298)
Dividend and interest income	23	28	65	73
Share of earnings of affiliates, net	21	36	49	43
Realized and unrealized gains (losses) on financial instruments, net (note 7)	(288)	(374)	480	(583)
Gains (losses) on dispositions of assets, net	17	14	(363)	232
Nontemporary declines in fair value of investments	--	(128)	--	(128)
Other, net	(24)	(4)	(30)	15
	(397)	(577)	(94)	(646)
Earnings (loss) from continuing operations before income taxes and minority interests	(214)	(393)	295	(246)
Income tax benefit (expense)	104	87	(132)	21
Minority interests in earnings of subsidiaries	(4)	(5)	(23)	(5)
Earnings (loss) from continuing operations	(114)	(311)	140	(230)
Discontinued operations, net of taxes (note 4)	7	(3)	7	(94)
Net earnings (loss)	$ (107)	(314)	147	(324)
Earnings (loss) per common share (note 3):				
Basic and diluted earnings (loss) from continuing operations	$ (.04)	(.11)	.05	(.08)
Discontinued operations	--	--	--	(.03)
Basic and diluted earnings (loss)	$ (.04)	(.11)	.05	(.11)

	THREE MONTHS ENDED JUNE 30, 2005	THREE MONTHS ENDED JUNE 30, 2004*	SIX MONTHS ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2004*
	AMOUNTS IN MILLIONS			
Net earnings (loss)	$(107)	(314)	147	(324)
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	(79)	(6)	23	(25)
Recognition of previously unrealized foreign currency translation losses	6	--	312	--
Unrealized holding gains (losses) arising during the period	96	11	(1,307)	387
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	(12)	70	(60)	(35)
Other comprehensive loss from discontinued operations	--	(81)	--	(62)
Other comprehensive earnings (loss)	11	(6)	(1,032)	265
Comprehensive loss	$ (96)	(320)	(885)	(59)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	JUNE 30, 2005	DECEMBER 31, 2004
	AMOUNTS IN MILLIONS	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,387	1,408
Trade and other receivables, net	1,068	1,186
Inventory, net	623	712
Derivative instruments (note 7)	1,286	827
Other current assets	699	642
Total current assets	5,063	4,775
Investments in available-for-sale securities and other cost investments (note 5)	19,569	21,860
Long-term derivative instruments (note 7)	1,173	1,601
Investments in affiliates, accounted for using the equity method	3,666	3,734
Property and equipment, at cost	2,178	2,105
Accumulated depreciation	(802)	(713)
	1,376	1,392
Intangible assets not subject to amortization:		
Goodwill (note 6)	9,113	9,073
Trademarks	2,388	2,388
	11,501	11,461
Intangible assets subject to amortization, net	4,257	4,437
Other assets, at cost, net of accumulated amortization	800	770
Assets of discontinued operations (note 4)	--	151
Total assets	$47,405	50,181

	JUNE 30, 2005	DECEMBER 31, 2004
	AMOUNTS IN MILLIONS	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 435	457
Accrued liabilities	714	837
Accrued stock-based compensation	160	236
Program rights payable	138	200
Derivative instruments (note 7)	1,499	1,179
Other current liabilities	396	298
Total current liabilities	3,342	3,207
Long-term debt (note 8)	8,057	8,566
Long-term derivative instruments (note 7)	1,050	1,812
Deferred income tax liabilities	9,987	10,734
Other liabilities	951	826
Liabilities of discontinued operations (note 4)	--	151
Total liabilities	23,387	25,296
Minority interests in equity of subsidiaries	273	299
Stockholders' equity (note 9):		
Preferred stock, $.01 par value. Authorized 50,000,000 shares; no shares issued	--	--
Series A common stock, $.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 2,681,317,190 shares at June 30, 2005 and 2,678,895,158 shares at December 31, 2004	27	27
Series B common stock, $.01 par value. Authorized 400,000,000 shares; issued 131,062,825 shares at June 30, 2005 and December 31, 2004	1	1
Additional paid-in-capital	33,792	33,765
Accumulated other comprehensive earnings, net of taxes	3,195	4,227
Unearned compensation	(47)	(64)
Accumulated deficit	(13,098)	(13,245)
	23,870	24,711
Series B common stock held in treasury, at cost (10,000,000 shares)	(125)	(125)
Total stockholders' equity	23,745	24,586
Commitments and contingencies (note 10)		
Total liabilities and stockholders' equity	$ 47,405	50,181